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# Checklists and illustrative financial statements for nonprofit organizations : a financial reporting practice aid, November 1990 edition

American Institute of Certified Public Accountants. Technical Information Division

Michael Miceli

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November 1990 Edition

**Checklists and  
Illustrative Financial  
Statements for Nonprofit  
Organizations**  
A FINANCIAL REPORTING PRACTICE AID

**AICPA**

American Institute of Certified Public Accountants



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**November 1990 Edition**

# **Checklists and Illustrative Financial Statements for Nonprofit Organizations**

## **A FINANCIAL REPORTING PRACTICE AID**

**Prepared by**

**Michael A. Miceli, CPA  
Technical Manager  
Technical Information Division**

*The Checklists and Illustrative Financial Statements for Nonprofit Organizations* have not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants, or the Financial Accounting Standards Board and have no official or authoritative status.

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## CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR NONPROFIT ORGANIZATIONS

These checklists and illustrative financial statements are not designed to be applied to the financial statements of colleges, universities, governmental units, hospitals or other health care entities.

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The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- o The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.
- o The checklists and illustrative financial statements have been updated through SAS No. 63, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- o The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.
- o The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosure indicated is required or suggested, and to what extent the disclosure is relevant to the statements being audited.

Users of these checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline (see back cover).

John Graves  
Director  
Technical Services



CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR NONPROFIT  
ORGANIZATIONS

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## INTRODUCTION

The basic financial statements of a nonprofit organization are a balance sheet and a statement of activity, also referred to as a statement of support, revenue, expenses, capital additions, and changes in fund balances, or similar titles. If a reconciliation between beginning and ending fund balances is not included in the statement of activity, a separate statement of changes in fund balances ordinarily would be presented. Additionally, the basic financial statements may include a statement of cash flows\* and/or a statement of functional expenses, depending on whether the organization follows the AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations, or the AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations. Many organizations with multiple funds often present comparative totals of all funds for one or more prior periods. The basic financial statements of the current period are sometimes presented on a comparative basis with those of one or more prior periods.

Nonprofit organizations generally present their expenses classified on a functional basis (according to the purpose for which costs are incurred, such as specific programs and supporting services). In some instances a functional classification is not necessary due to the nature of the organization e.g. private foundations, cemeteries, country clubs, and performing arts organizations) and therefore, the object basis (according to their natural classification, such as salaries, employee benefits, and purchased services) is used.

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\* Nonprofit organizations are not subject to FASB Statement No. 95, Statement of Cash Flows. According to that statement, a profit oriented business entity whose financial statements purport to present both financial position and results of operations must present, as a basic financial statement, a statement summarizing cash flows for each period for which an income statement is presented. Under such circumstances, a nonprofit entity may, but is not required to, present a statement of cash flows. A nonprofit entity may also continue to present a statement of changes in financial position as described in SOP 78-10, but this is not mandatory.

The Illustrative Cash Flow Statements in this checklist are based on the commentary and advisory conclusions contained in "Display in the Financial Statements of Not-for-Profit Organizations," a report of the AICPA Task Force on Not-for-Profit Organizations (December 16, 1988).



A wide variety of users are interested in the financial statements of nonprofit organizations. Among the principal users are (1) contributors to the organization, (2) beneficiaries of the organization, (3) the organization's trustees or directors, (4) employees of the organization, (5) governmental units, (6) the organizations' creditors and potential creditors, and (7) constituent organizations.

A principal purpose of a nonprofit organization's financial statements is to communicate the ways resources have been used to carry out the organization's objectives. It requires reporting the nature and amount of available resources, the uses made of the resources, and the net changes in fund balances during the period. In addition, while adequate measures of program accomplishment generally are not available in the context of present financial statements, the financial statements should identify the organization's principal programs and their costs. A third aspect of financial reporting for nonprofit organizations is disclosure of the degree of control exercised by donors over use of resources. A fourth aspect is that the financial statements of a nonprofit organization should help the user evaluate the organization's ability to carry out its fiscal objectives.

Many nonprofit organizations receive resources restricted for particular purposes. To facilitate observance of limitations, the accounts are often maintained using fund accounting, by which resources are classified for accounting and reporting purposes into funds associated with specified activities or objectives. Each fund is a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance. Although separate accounts are maintained for each fund, the usual practice in preparing financial statements is to group funds that have similar characteristics.

## Nonprofit Organizations Checklists--General

Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids which may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins and Interpretations thereof. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "material," "in statements," and "in note" (with provisions for indicating a cross reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

Disclosure checklists are generally accompanied by caveats that include all of the following points:

- o Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances



of individual engagements.

- o The checklists are not all-inclusive and are not intended to present minimum requirements.
- o Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

## Checklist for Financial Statements and Notes of Nonprofit Organizations

This checklist has been developed by the staff of the Technical Information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page iii is incorporated herein by reference.

### Explanation of References:

- ARB = Accounting Research Bulletin
- APB = Accounting Principles Board Opinion
- SFAS = Statement of Financial Accounting Standards
- SAS = Statement on Auditing Standards
- FASBI = Financial Accounting Standards Board Interpretation
- TB = Technical Bulletin issued by the staff of the FASB\*
- AC = Reference to section number in *FASB Accounting Standards Current Text*
- AU = Reference to section number in *AICPA Professional Standards* (vol. 1) of SAS cited
- ACNO = AICPA Audit and Accounting Guide, *Audits of Certain Nonprofit Organizations*
- VHW = AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations*
- SOP = AICPA Statement of Position

Some questions in this checklist do not cite a specific authoritative reference but indicate that the disclosure is generally accepted. Most firms disclose that information even though a requirement to do so in the authoritative literature can not be identified.

This checklist is organized into the following classifications:

- o General
  - A. Titles and References
  - B. Disclosure of Accounting Policies and Other Disclosures
  - C. Accounting Changes
  - D. Comparative Financial Statements

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\* The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.



- E. Financial Instruments
  - F. Nonmonetary Transactions
  - G. Contingencies and Commitments
  - H. Subsequent Events
  - I. Pension Plans
  - J. Related Parties
- o Balance Sheet
    - A. General
    - B. Cash
    - C. Carrying Amount of Investments
    - D. Receivables
    - E. Property and Equipment
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    - G. Other Assets and Deferred Charges
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    - J. Lessees
    - K. Other Liabilities and Deferred Credits
    - L. Trust Funds and Gifts of Future Interests
    - M. Fund Balances
- o Activity Statement
    - A. Fund Accounting
    - B. Capital Gains
    - C. Third-Party Reimbursements
    - D. Donated or Contributed Services
    - E. Donated Materials and Facilities
    - F. Subscription and Membership Income
    - G. Fund Raising
    - H. Restricted Gifts, Grants, Pledges, etc.
    - I. Gifts of Future Interest
    - J. Expenses
    - K. Remittances to National Organizations
    - L. Prior Period Adjustments
    - M. Wills or Trusts
    - N. Accounting for a Change in Method of Accounting for Certain Postretirement Benefits
- o Additional Financial Statements
    - A. Statement of Changes in Financial Position
    - B. Statement of Functional Expenses
- o Tax Status

## Checklist Questionnaire

		Yes	No	N/A
<b>General</b>				
<b>A. Titles and References</b>				
Are the financial statements suitably titled?		—	—	—
[SAS 62, par. 7 (AU 623.07)]				
<b>B. Disclosure of Accounting Policies and Other Disclosures</b>				
1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements?		—	—	—
[APB 22, par. 8 (AC A10.102)]				
a. Have the organization's accounting policies been disclosed for:				
1. Grant commitments?		—	—	—
2. Carrying value of investments?		—	—	—
3. Carrying value of property, plant, equipment, and collections?		—	—	—
4. Pledges receivable?		—	—	—
[Generally accepted]				
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods?		—	—	—
[APB 22, par. 12 (AC A10.105); TB 82-1, par. 7 (AC I28.513)]				
3. If the organization depends significantly on third-party reimbursement arrangements to carry out its program activities, do the financial statements adequately disclose information related to these arrangements?		—	—	—
[ACNO, Ch. 3, pp. 14, 15]				

	Yes	No	N/A
4. Have volunteer services by outside contributors been disclosed?	___	___	___
5. Do the notes to financial statements disclose the methods used by the organization in valuing, recording, and reporting donated or contributed services? [SOP 78-10, par. 67, VHW, p. 22]	___	___	___
6. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	___	___	___
7. Considering the following potential users of the financial statements:			
a. Contributors to and other funders of the organization			
b. Beneficiaries of the organization			
c. The organization's trustees or directors and key managers			
d. Other employees of the organization			
e. Governmental units			
f. The organization's creditors and potential creditors			
g. Related organizations			
Do the financial statements identify the organization's			
a. Principal programs? [SOP 78-10, par. 9]	___	___	___
b. Principal program costs? [SOP 78-10, par. 9]	___	___	___
c. Do the financial statements, and/or notes disclose the degree of control exercised by donors over the use of resources? [SOP 78-10, par. 9]	___	___	___
d. Do the financial statements help the reader to evaluate the organization's ability to carry out its			

	Yes	No	N/A
<div style="text-align: right; padding-right: 20px;">fiscal objectives? [SOP 78-10, par. 9]</div>	_____	_____	_____
<b>C. Accounting Changes</b>			
1. For an accounting change does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change and a clear explanation of the newly adopted principle and why it is preferable?	_____	_____	_____
c. Effect on excess of revenues over expenses? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
2. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 32 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, pars. 10-11 (AC A06.112); APB 20, par. 16 (AC A06.112)]	_____	_____	_____
3. Is a correction of an error shown as a prior period adjustment with disclosure of the following in the period of its discovery and correction:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on excess of revenues over expenses before and after extraordinary items? [APB 20, pars. 36-37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102) SOP 78-10, par. 41]	_____	_____	_____

	Yes	No	N/A
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated, or at least referred to, the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	___	___	___
3. If changes have occurred in the manner of, or basis for, presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	___	___	___
<b>E. Financial Instruments</b>			
1. Does the entity have a financial instrument that is:			
a. Cash in banks or on hand?	___	___	___
or			
b. Evidence of an ownership interest in an entity?	___	___	___
or			
c. A contract that both:			
(1) Imposes on one entity a contractual obligation (liability):			
(i) To deliver cash or a financial instrument to a second entity?	___	___	___
or			
(ii) To exchange financial instruments on potentially unfavorable terms with the second entity?	___	___	___
(2) Conveys to that second entity a contractual right:			
(i) To receive cash or another			



	Yes	No	N/A
financial instrument from the first entity?	___	___	___
or			
(ii) To exchange other financial instruments on potentially favorable terms with the first entity?	___	___	___
[SFAS 105, par. 6 (AC F25.106)]			
2. For financial instruments with off- balance-sheet risk (except for those excluded in the statement), were the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	___	___	___
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	___	___	___
(2) The cash requirements of those instruments?	___	___	___
(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"?	___	___	___
[SFAS 105, par. 17 (AC F25.112)]			
3. For financial instruments with off balance sheet risk (except as noted above), were the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the			

	Yes	No	N/A
collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	_____	_____	_____
[SFAS 105, par. 18 (AC F25.113)]			
4. Were disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), included in the following:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that comprise the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security			

	Yes	No	N/A
supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
<b>F. Nonmonetary Transactions</b>			
1. Are nonmonetary transactions accounted for in conformity with APB 29 and/or SOP 78-10, par. 71 or VHW, Chapter 5? [APB 29, pars. 18-27 (AC C11.101 and N35.105-.113), SOP 78-10, par. 71, VHW, Chapter 5]	_____	_____	_____
2. Do disclosures for nonmonetary transactions during the period include:			
a. Nature of the transactions?	_____	_____	_____
b. Basis of accounting for the assets transferred?	_____	_____	_____
c. Gains or losses recognized on the transfers? [APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114-.119)]	_____	_____	_____
<b>G. Contingencies and Commitments</b>			
1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	_____	_____	_____
2. For loss contingencies not accrued do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and C59.111)]	_____	_____	_____
3. Are the nature and amount of guarantees disclosed (for example, guarantee of indebtedness of others, obligations of banks under standby			

	Yes	No	N/A
letters of credit)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114)]	—	—	—
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	—	—	—
5. Is there adequate disclosure of commitments such as those for capital expenditures, grants to be awarded to others, restrictive covenants in financing agreements, inventory purchase agreements, and employment contracts? [SFAS 5, pars. 18-19 (AC C59.120)]	—	—	—
6. Are encumbrances, appropriations of fund balance, unspecified reserves, and other commitments meeting the criteria of SFAS 5, par. 8 reported as expenses or liabilities? [SFAS 5, pars. 14-15 (AC C59.116-.117)] (These may be reported as segregations of fund balance on the balance sheet.)	—	—	—
7. Are commitments to fund future grants which are not unconditional grants at the balance sheet date disclosed?	—	—	—
<b>H. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, 560.07 and 561.01-.09 (AU 560.03-.04, 560.07 and 561.01-.09)]	—	—	—
2. Are subsequent events that provide evidence with respect to conditions			

	Yes	No	N/A
that did not exist at the date of the balance sheet, but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading?			
[SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120) and SAS 1, secs. 560.05-.07, 560.09 and 561.01-.09 (AU 560.05-.07, 560.09 and 561.01-.09)]	—	—	—

## I. Pension Plans

### 1. If there is a defined benefit plan, do disclosures include:

- |  |   |   |   |
|--|---|---|---|
| a. A description of the plan, including: employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented? | — | — | — |
| b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? *   | — | — | — |

---

\* The net total of other components is the net effect during the period of certain delayed recognition provisions of this statement. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)
- b. Amortization of the net gain or loss from earlier periods
- c. Amortization of unrecognized prior service cost
- d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]

	Yes	No	N/A
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:			
1. The fair value of plan assets?	___	___	___
2. The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	___	___	___
3. The amount of unrecognized prior service cost?	___	___	___
4. The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	___	___	___
5. The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]?	___	___	___
6. The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 [AC P16.130]?	___	___	___
7. The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35-36 [AC P16.129-.130] (which is the net result of combining the preceding six items)?	___	___	___
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?	___	___	___
e. If applicable, the amount and types			



Yes No N/A

of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization methods used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in paragraph 41 [AC P16.135]?  
[SFAS 87, par. 54 (AC P16.150)]

— — —

f. If more than one defined benefit plan exists:

(1) Have the disclosures required by I1 above been aggregated for all of the employer's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?

— — —

(2) Are plans with assets in excess of accumulated benefit obligation not aggregated with plans that have accumulated benefit obligations that exceed plan assets?

— — —

(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions?

— — —

[SFAS 87, par. 56 (AC P16.153)]

2. If there is a defined contribution plan, do disclosures include:

a. A description of the plan(s), including: employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting

	Yes	No	N/A
comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	_____	_____	_____
(2) If yes, are accounting and disclosure requirements in accordance with the provisions of item I. 1., above, applicable to a defined benefit plan? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s), including: the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations which is either probable or reasonably possible, have the provisions of SFAS 5 [AC C59] been applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____
4. If there is a settlement and/or curtail-			

	Yes	No	N/A
ment of a defined benefit pension plan and/or termination benefits under such plan, do disclosures include:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
<b>J. Related Parties</b>			
1. Do the financial statements represent one of the following components of a nonprofit organization [ACNO, Ch. 8, p. 51]:			
a. A branch of an existing organization?	_____	_____	_____
b. A separate operation?	_____	_____	_____
c. A separate fund?	_____	_____	_____
d. A grant?	_____	_____	_____
2. If the answer to any of the questions in item J. 1. c. is yes, do the financial statements or footnotes disclose the following:			
a. Existence of affiliated or controlling interest? [ACNO, Ch. 8, p. 52]	_____	_____	_____
b. Nature and volume of material transactions (individually or in the aggregate) with related parties? [ACNO, Ch. 8, p. 52]	_____	_____	_____
c. Any allocations of common expenses? [ACNO, Ch. 8, p. 52]	_____	_____	_____
d. Do the financial statements of the component clearly indicate what part of the organization is included and what parts are not included? [ACNO, Ch. 8, p. 52]	_____	_____	_____

Yes No N/A

3. Affiliated Organizations

If other organizations are affiliated with, or otherwise financially related to, the organizations under examination, have we considered whether combined financial statements are necessary for fair presentation in conformity with GAAP?

[ACNO, Ch. 7, p. 39; VHW, pp. 34-35]

— — —

If combined financial statements are not necessary, did the auditor consider whether appropriate disclosure of the affiliation was made in the notes to financial statements?

[ACNO, Ch. 7, p. 39; SFAS 57 (AC R36)]

— — —

4. With respect to disclosure of related party transactions, has consideration been given to transactions with chapters, foundations, auxiliaries, guilds, trusts, etc., as well as members of management and the governing board and other organizations with which such parties are affiliated?

[SFAS 57, AC R36]

— — —

## Balance Sheet

Yes No N/A

### A. General

1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications with totals presented for current assets and current liabilities?  
[ARB 43, Ch. 3A (AC B05.103-.109); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.138-.139); TB 79-3 (AC B05.501-.503); SOP 78-10, pars. 23, 24] \_\_\_\_
2. Are assets not expected to be realized during the current operating cycle classified as noncurrent?  
[ARB 43, Ch. 3A, pars. 5-6 (AC B05.106-.107)] \_\_\_\_
3. Are valuation allowances contra to such assets as receivables and investments shown as deductions from their related assets with appropriate disclosure?  
[APB 12, par. 3 (AC V18.102)] \_\_\_\_
4. In order to segregate unrestricted from restricted resources and resources that can not be spent on current operations, does the organization report on a fund accounting basis?  
[SOP 78-10, pars. 15, 20-24; VHW, pp. 1-3] \_\_\_\_

### B. Cash

1. Is restricted cash appropriately segregated from cash available for current operations?  
[ARB 43, Ch. 3A, par. 6 (AC B05.107)] \_\_\_\_
2. Are restrictions on cash appropriately disclosed?  
[SFAS 5, pars. 18-19 (AC C59.120)] \_\_\_\_

### C. Carrying Amount of Investments

1. For those organizations covered by SOP 78-10:

Yes No N/A

a. Marketable debt securities:

Assuming the organization has the ability and intention to hold the securities to maturity, are the securities being reported at amortized cost, market value, or the lower of amortized cost or market value?

[SOP 78-10, par. 79]

\_\_\_ \_\_\_ \_\_\_

b. Marketable equity securities and marketable debt securities:

For debt securities which are not expected to be held to maturity and all equity securities, are they reported at either market value or the lower of cost or market value?

[SOP 78-10, par. 79]

\_\_\_ \_\_\_ \_\_\_

c. Other investments:

Are other investments, such as real estate, oil and gas interests, reported at either fair value or the lower of cost or fair value?

[SOP 78-10, par. 79]

\_\_\_ \_\_\_ \_\_\_

2. For the above three categories has the same basis of valuation been applied to all investments in each group?

[SOP 78-10, par. 79]

\_\_\_ \_\_\_ \_\_\_

3. If investments are not carried at market value, is the market value for that group disclosed at the balance sheet date?

[SOP 78-10, par. 79]

\_\_\_ \_\_\_ \_\_\_

4. For those organizations covered by VHW Guide:

a. If the market value of the investment portfolio is below the recorded value, was the carrying value reduced to market if such a



	Yes	No	N/A
reduction is considered necessary? [VHW, Ch. 2, p. 5]	—	—	—
or			
Was an allowance for decline in market value provided? [VHW, Ch. 2, p.5]	—	—	—
5. Have investments other than securities been valued at cost or fair market value? [VHW, Ch. 2]	—	—	—
6. Do the notes disclose:			
a. The components of the investment portfolio at cost and market?	—	—	—
b. The cost and market value of aggregate investments by fund group?	—	—	—
7. Do the notes to financial statements summarize total realized and unrealized gains and losses and income earned from investments held by all funds except life income and custodial funds? [SOP 78-10, par. 83]	—	—	—

#### D. Receivables

1. Are accounts and notes receivable from officers, employees, and affili- ated organizations shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	—	—	—
2. If a note is noninterest bearing or has an inappropriate stated in- terest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	—	—	—
b. Does the disclosure include the effective interest rate and face amount of the note?	—	—	—

	Yes	No	N/A
c. Is amortization of discount or premium reported as interest in the income statement? [APB 21, par. 16 (AC I69.109)]	—	—	—
3. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	—	—	—
4. Are legally enforceable pledges receivable recorded? [SOP 78-10, pars. 64-66; VHW, p. 18]	—	—	—
E. Property and Equipment			
1. Are fixed assets recorded in a separate plant fund? [SOP 78-10, par. 20-22; VHW, p. 10]	—	—	—
2. Are purchased fixed assets capitalized at cost? [SOP 78-10, par. 105; VHW, p. 10]	—	—	—
3. Are donated fixed assets recorded at their fair value at the date of the gift? [SOP 78-10, par. 105; VHW, p. 10]	—	—	—
4. If fixed assets were not capitalized in the past are they being capitalized retroactively? [SOP 78-10, par. 105]	—	—	—
5. If historical costs are unavailable for assets already in service, has another reasonable basis been used to value the assets? [SOP 78-10, par. 105]	—	—	—
6. Depreciable assets:			
a. Are capitalized fixed assets depreciated? [SOP 78-10, par. 107]	—	—	—
b. Has the amount of depreciation provided on assets carried at historical cost and the amount,			

	Yes	No	N/A
if any, provided on assets carried on a basis other than historical cost been disclosed? [SOP 78-10, par. 110]	_____	_____	_____
c. Do the financial statements or notes thereto include disclosure of:			
1. Depreciation expense for each period? [SFAS 93, par. 5a (AC D40.105a); SOP 78-10, par. 110]	_____	_____	_____
2. Balances of major classes of depreciable assets by nature or function? [SFAS 93, par. 5b (AC D40.105b)]	_____	_____	_____
3. Accumulated depreciation, either by major classes of assets or in total? [SFAS 93, par. 5c (AC D40.105c)]	_____	_____	_____
4. The method or methods used in computing depreciation with respect to major classes of depreciable assets? [SFAS 93, par. 5d (AC D40.105d); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
7. If the organization owns any individual works of art or historical treasures whose economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long, and they meet the conditions of paragraph 6 of SFAS 93, are they depreciated? [SFAS 93, par. 3]	_____	_____	_____
8. Are capitalized interest costs appropriately determined and reported? [SFAS 34, pars. 6-23 (AC I67.102-.103, I67.105-.107 and I67.109-.118) as amended by SFAS 42, par. 4 (AC I67.104); SFAS 58, pars. 5-7 (AC I67.105c, I67.106c-.106e and I67.117); SFAS 62, par. 5 (AC I67.106)]	_____	_____	_____

	Yes	No	N/A
9. Has interest earned on the proceeds of tax exempt borrowings been offset against the interest cost in determining capitalization rates or limitations? [SFAS 62, par. 3-4]	_____	_____	_____
10. Has the basis of valuation and the amount of any assets pledged to secure outside borrowing been disclosed in the financial statements? [SOP 78-10, p. 166, Note 3]	_____	_____	_____
 F. Collections of Works of Art and Similar Items			
1. If the organization has inexhaustible collections usually associated with museums, art galleries, botanical gardens, libraries or similar entities, and if such collections are not capitalized, does the caption "Collections" appear on the balance sheet with no amount shown but with a reference to a note that describes the collection? [SOP 78-10, par. 113]	_____	_____	_____
2. If the valuation basis is shown on the balance sheet have we obtained assurance that it is appropriate? [SOP 78-10, par. 113]	_____	_____	_____
3. If a valuation basis is not shown on the balance sheet do the financial statements disclose the cost or contributed value of current period accessions and the nature of and proceeds from deaccessions? [SOP 78-10, par. 114]	_____	_____	_____
 G. Other Assets and Deferred Charges			
1. Are the costs of intangible assets acquired from other entities recorded as assets? [APB 17, pars. 24-26 (AC I60.105-.107)]	_____	_____	_____
2. Are the costs of developing, maintaining or restoring intangible assets which are			

	Yes	No	N/A
not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to the entity as a whole, expensed when incurred? [APB 17, par. 24 (AC I60.105)]	_____	_____	_____
3. Has interest been accrued on interfund borrowings if appropriate? [SOP 78-10, par. 118]	_____	_____	_____
4. When funds for repayment are not available have interfund borrowings been considered permanent and recorded as transfers? [SOP 78-10, par. 118]	_____	_____	_____
<b>H. Current Liabilities</b>			
1. Do current liabilities include:			
a. Obligations for items which have entered the operating cycle?	_____	_____	_____
b. Collections received in advance of the delivery of goods or performance of services?	_____	_____	_____
c. Debts which arise from operations directly related to the operating cycle?	_____	_____	_____
d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period?	_____	_____	_____
e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period? [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109); SFAS 78, par. 5 (AC B05.109A and B05.118)]	_____	_____	_____
2. Do current liabilities exclude short-term obligations that the entity in-			

	Yes	No	N/A
tends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing?			
[SFAS 6, pars. 8-14 (AC B05.112-.116); FASBI 8 (AC B05.117 and B05.138-.139)]	—	—	—

I. Notes Payable and Other Debt

- |  |   |   |   |
|--|---|---|---|
| 1. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures such as assets pledged as collateral, etc.?                    |   |   |   |
| [SFAS 5, pars. 18-19 (AC C59.120)]   | — | — | — |
| 2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented? |   |   |   |
| [SFAS 47, par. 10b (AC C32.105b)]  | — | — | — |
| 3. If the note is noninterest bearing or has an inappropriate stated interest rate:  |   |   |   |
| a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?  |   |   |   |
| b. Does the disclosure include the effective interest rate and face amount of the note?  |   |   |   |
| c. Is amortization of the discount or premium reported as interest in the income statement?  |   |   |   |
| d. Are issue costs reported in the balance sheet as deferred charges?  |   |   |   |
| [APB 21, par. 16 (AC I69.109)]   | — | — | — |
| 4. Are current portions of debt obligations presented as current liabilities?  |   |   |   |
| [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109)]  | — | — | — |



- |  | Yes   | No    | N/A   |
|--|-------|-------|-------|
| 5. If a short-term obligation is to be excluded from current liabilities per SFAS 6, do disclosures include:   |       |       |       |
| a. General description of the financing agreement?   | _____ | _____ | _____ |
| b. Terms of any new obligation incurred or expected to be incurred, as a result of the refinancing?<br>[SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501-.503)] | _____ | _____ | _____ |

J. Lessees

- |  |       |       |       |
|--|-------|-------|-------|
| 1. For capital leases do disclosures include:  |       |       |       |
| a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented?<br>[SFAS 13, par. 16a (AC L10.112a(1)-(4))]   | _____ | _____ | _____ |
| b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal deductions therefrom for executory years with appropriate separate costs and imputed interest to reduce net minimum lease payments to present value?<br>[SFAS 13, pars. 10 & 16a (AC L10.106 and L10.112a(1)-(4))] | _____ | _____ | _____ |
| c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented?<br>[SFAS 13, par. 16a (AC L10.112a(1)-(4))]  | _____ | _____ | _____ |
| d. Total contingent rentals actually incurred for each period for which an income statement is presented?<br>[SFAS 13, par. 16a (AC L10.112a(1)-(4)) amended 10/1/79 by SFAS 29, par. 12]  | _____ | _____ | _____ |

Yes No N/A

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year do disclosures include:

a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?

\_\_\_\_\_

b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?

\_\_\_\_\_

[SFAS 13, par. 16b (AC L10.112b)]

3. For all operating leases, do disclosures include: rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals?

\_\_\_\_\_

[SFAS 13, par. 16c (AC L10.112c)]

4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:

a. Bases for determination of contingent rentals?

\_\_\_\_\_

b. Terms of any renewal or purchase options or escalation clauses?

\_\_\_\_\_

c. Restrictive covenants?

\_\_\_\_\_

[SFAS 13, par. 16d (AC L10.112d); for amendments of SFAS 13 see SFASs 17, 22, 23, 26, 27, 28 and 29; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-11, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17 and 79-18]

#### K. Other Liabilities and Deferred Credits

1. Are grants subject to periodic renewal

	Yes	No	N/A
recorded as expenses and liabilities at renewal with a disclosure of the remaining commitment in the notes? [SOP 78-10, par. 102]	___	___	___
2. Are grants to other organizations recorded as expenses and liabilities at the time recipients are entitled to them? (Normally this occurs when the board approves a specific grant or notifies the grantee.) [SOP 78-10, par. 101]	___	___	___
3. Are balances of unexpended restricted gifts, grants, and bequests accounted for as deferred revenue and support on the balance sheet? [SOP 78-10, par. 62]	___	___	___
4. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 and the amount can be reasonably estimated? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106-.107 and C59.124-.127)]	___	___	___
5. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, pars. 6-7 (AC C44.104 and C44.108)]	___	___	___
6. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 74, par. 2 (AC C45.102)]	___	___	___

L. Trust Funds and Gifts of Future Interests

1. Are funds held in trust by others under a legal trust instrument created by a donor independent of the reporting organization and that are neither in the possession nor under the control of the organization but are held and administered by outside fiscal agents

	Yes	No	N/A
with the organization deriving income from such funds disclosed? [SOP 78-10, par. 122]	_____	_____	_____
2. Is significant income from such trusts reported separately? [SOP 78-10, par. 122]	_____	_____	_____
3. Is the basis of valuing gifts of future interests, e.g., life income and annuity gifts, disclosed? [ACNO, p. 26]	_____	_____	_____
 M. Fund Balances			
1. Are unrestricted fund balances, designated for a specific purpose by the governing board of the organization segregated on the balance sheet? [SOP 78-10, par. 120]	_____	_____	_____
 Activity Statement, Statement of Revenue and Expenses, or Statement of Support and Revenue, Expenses, Capital Additions, and Changes in Fund Balances [SOP 78-10, par. 25]			
 A. Fund Accounting			
1. In order to segregate unrestricted from restricted resources, does the organization report on a fund accounting basis? [SOP 78-10, par. 15]	_____	_____	_____
2. Does the Activity Statement include the activity in the unrestricted, restricted, plant and endowment funds as well as other capital funds which represent resources of the organization? [SOP 78-10, par. 26]	_____	_____	_____
3. Does the Activity Statement disclose all legally unrestricted income, expenses, and fund balances on a functional basis where the organization receives significant support from the			

	Yes	No	N/A
general public in the form of contributions? [SOP 78-10, Exhibits 1B and 4B; VHW, pp. 42-43]	—	—	—
4. Is the total amount for all legally unrestricted income, expenses and fund balances shown in one column so as to be clearly distinguishable to a reader of the financial statements? [SOP 78-10, Exhibits 1B and 4B; VHW, pp. 42-43]	—	—	—
5. Does the Activity Statement reflect as "capital additions" or "nonexpendable additions" contributions which cannot be spent currently for program or support services because of donor or legal restrictions and have many of the characteristics of capital (e.g., gifts, grants, and bequests to endowment, plant, and loan funds)? [SOP 78-10, par. 28]	—	—	—
6. Has the client complied with all restrictions imposed by donors or other third parties and are significant restrictions disclosed in the financial statements? [SOP 78-10, par. 59]	—	—	—
7. Are contributions that represent current restricted gifts, grants, bequests, and other income accounted for as support and revenue to the extent spent in accordance with donor restrictions and reflected as deferred revenue or support in the balance sheet until expenses have been incurred in accordance with the donor's restrictions? [SOP 78-10, par. 62]	—	—	—
8. If a columnar format is used, do the statements show a total all-funds column? (Not mandatory) [SOP 78-10, pars. 37, 39]	—	—	—
9. Are comparative financial statements			

	Yes	No	N/A
being presented? (Not mandatory) [SOP 78-10, par. 41]	—	—	—
10. Is an excess of revenues over expenses clearly shown? [SOP 78-10, par. 30] and if there are capital additions, are there two excess captions? [SOP 78-10, par. 31]	—	—	—
B. Investment Gains			
1. If the aggregate market value by fund group is less than the carrying amount for investments carried at the lower of (amortized) cost or market value, has the decline been recognized? [SOP 78-10, par. 80]	—	—	—
2. Have recoveries in aggregate market value in subsequent periods been recorded subject to the limitation that the carrying amount should not exceed original cost? [SOP 78-10, par. 80]	—	—	—
a. Where such adjustments relate to noncurrent investments was this recognized as an addition or deduction to the fund balance? [SOP 78-10, par. 80]	—	—	—
b. If the adjustments relate to current investments, were they reflected in the statement of activity in the same manner as realized gains and losses? [SOP 78-10, par. 80]	—	—	—
3. Is the unrealized appreciation or depreciation in investments at the beginning and end of the year disclosed? [AVHW, p. 6 (only required for voluntary health and welfare organizations)]	—	—	—
4. Is the amount of realized (and, when applicable, unrealized) investment gains included in endowment funds that are			

Yes No N/A

available for transfer to the unrestricted included in endowment funds that is available for transfer to the unrestricted fund at the discretion of the governing board and the authority on which such funds may be transferred disclosed?  
[AVHW, p. 8 (only required for voluntary health and welfare organizations)]

— — —

5. Assuming that the organization has adopted the so called total-return approach for the management of investments of endowment and quasi-endowment funds:

a. Is this in conformity with state regulations?  
[See pars. 75 and 76 of SOP 78-10, and VHW, Ch. 2, p. 7]

— — —

b. Has the organization reported the portion of available net gains from endowment investments utilized in the statement of activity as a transfer from endowment funds to other funds?  
[SOP 78-10, par. 76; VHW, p. 8]

— — —

c. If the answer is "no" has this been disclosed in the auditor's (or accountant's) report?

— — —

d. Do the notes to financial statements summarize total realized and unrealized gains and losses and income earned from investments held by all funds except life income and custodial funds?  
[SOP 78-10, par. 83]

— — —

## 6. Taxes

a. Is the organization subject to federal excise tax on investment income or to federal and state income taxes on unrelated business income?  
[SOP 78-10, par. 103]

— — —

Yes No N/A

b. If the answer is "yes" and temporary differences exist between the income base for tax and financial reporting purposes, has interperiod allocation of taxes been made and disclosed?  
[SOP 78-10, par. 103]

\_\_\_\_\_

c. Do the notes disclose the applicability of the federal excise tax, the amounts accrued and the organization's position with respect to minimum distribution requirements?  
[SOP 78-10, p. 141]

\_\_\_\_\_

#### 7. Transfers

a. Where applicable, does the Activity Statement show that transfers of resources among fund groups are neither revenues nor expenses, are distinguished from support and revenues, and are reported as changes in fund balances below the caption "fund balance at beginning of period"?  
[SOP 78-10, par. 104]

\_\_\_\_\_

b. When funds for repayment are not available have interfund borrowings been considered permanent and recorded as transfers?  
[SOP 78-10, par. 118]

\_\_\_\_\_

#### C. Third-Party Reimbursements

If the organization depends significantly on third-party reimbursement arrangements to carry out its program activities, do the financial statements adequately disclose information related to these arrangements?  
[ACNO, Ch. 3, pp. 14, 15]

\_\_\_\_\_

#### D. Donated or Contributed Services

Do the notes to financial statements disclose the methods used by the organization in valuing, recording, and reporting donated or contributed services?  
[SOP 78-10, par. 67; VHW, p. 22]

\_\_\_\_\_



	Yes	No	N/A
<b>E. Donated Materials and Facilities</b>			
1. Have significant donated materials and facilities been recorded at their fair value?	_____	_____	_____
2. Did the organization have a clear, measurable, and objective basis for determining these fair values? [SOP 78-10, par. 71; VHW, p. 21]	_____	_____	_____
<b>F. Subscription and Membership Income</b>			
1. Are subscriptions and revenues derived from services rendered or sale of goods recognized as revenue in the period in which they are provided? [SOP 78-10, par. 84]	_____	_____	_____
2. Is revenue from membership dues recognized ratably over the period to which the dues relate? [SOP 78-10, par. 84]	_____	_____	_____
3. If dues, assessments, and nonrefundable initiation fees are in substance contributions, and services are not to be provided to the member, are they recognized as revenue in the period the organization is entitled to them? [SOP 78-10, par. 84]	_____	_____	_____
<b>G. Fund Raising</b>			
1. If the organization receives significant support from the general public, are the expenses reported on a functional basis presenting separately expenses for program services, fund-raising, membership development, cost incurred in soliciting grants, and management and general activities ? [SOP 78-10, pars. 85, 87, and 96; VHW, p. 24]	_____	_____	_____
2. If revenues from fund-raising events are reported net of direct expenses are such expenses disclosed? [SOP 78-10, par. 93, VHW, p. 42]	_____	_____	_____

	Yes	No	N/A
3. Is the total cost of all fund raising activities disclosed whether the organization reports expenses on a functional basis or some other basis? [SOP 78-10, par. 94; VHW, p. 27]	_____	_____	_____
4. Do fund-raising expenses include any applicable portion of management salaries, depreciation, and other occupancy expenses? [SOP 78-10, par. 98]	_____	_____	_____
5. Is the total support received from fund-raising efforts disclosed? [VHW, p. 27 (only required for voluntary health and welfare organizations)]	_____	_____	_____
6. If joint costs of informational materials and activities that include fund-raising appeals have been incurred and allocated between fund-raising and the appropriate program or management and general function, have the following been disclosed:			
a. The fact that such costs have been allocated?	_____	_____	_____
b. The total amount allocated during the period?	_____	_____	_____
c. The portion allocated to each functional expense category? [SOP 87-2, par. 22]	_____	_____	_____
 H. Restricted Gifts, Grants, Pledges, etc.			
1. Are gifts, grants, pledges and other revenues which are restricted by the donor for a particular purpose recorded as follows:			
For "Certain Nonprofit Organizations"--in accordance with SOP 78-10, pars. 54-62?	_____	_____	_____
For "Voluntary Health and Welfare Organizations"--in accordance with Chapter 1, p. 2?	_____	_____	_____

Yes    No    N/A

2. For VHW Organizations and ACNO, is investment income recorded directly into the appropriate fund based on the nature of any restrictions placed on the income?  
[VHW, Ch. 1, p. 3; SOP 78-10, pars. 72, 73]    ☐    ☐    ☐
3. Do the notes disclose the changes in deferred restricted amounts?  
[SOP 78-10, p. 107]    ☐    ☐    ☐

I. Gifts of Future Interest (ACNO Ch. 4, p. 25)

1. Annuity Gifts

- a. Has the present value of the actuarially determined liability resulting from annuity gifts been recorded at the date of the gifts?  
[SOP 78-10, par. 121]    ☐    ☐    ☐
- b. Has any excess or deficiency in the amount of an annuity gift over the liability been recorded as support in the year of the gift if it may be used immediately for the general purpose of the organization?  
[SOP 78-10, par. 121]    ☐    ☐    ☐
- c. If this was not done has the excess been reported as deferred revenue if it is restricted for specific purposes?  
[SOP 78-10, par. 121]    ☐    ☐    ☐
- d. Has the amount previously recorded as deferred support been reflected as support or a capital addition at the future date when the terms of the annuity gift were met?  
[SOP 78-10, par. 121]    ☐    ☐    ☐

2. Life Income Gifts

- a. For the principal amount of life income gifts where the donor reserves the right to the income

	Yes	No	N/A
from the gift for life or some other stipulated period, has this principal amount been recorded as deferred support in the balance sheet in the period the gift was received? [SOP 78-10, par. 121]	—	—	—
b. Has the amount previously recorded as deferred support been reflected as support or a capital addition when the terms of the life income gift were met? [SOP 78-10, par. 121]	—	—	—
3. Funds Held in Trust			
a. Is significant income from funds held in trust reported separately? [SOP 78-10, par. 122]	—	—	—
J. Expenses			
1. Allocation of Expenses			
a. Has a reasonable allocation of the organization's functional expenses been made to various programs and supporting services? [SOP 78-10, par. 97 and 100; VHW, Ch. 6]	—	—	—
b. Has the method of these allocations been disclosed in the notes to financial statements? [SOP 78-10, par. 100]	—	—	—
2. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20-34, 39-53, and 77? [SFAS 87, pars. 20-34, 39-53, and 77 (AC P16.114-.128, .133-.138, and .141-.149)]	—	—	—
3. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3-5 and 9-11? [SFAS 88, pars. 3-5 and 9-11 (AC P16.172, .177-.179 and .181)]	—	—	—

	Yes	No	N/A
4. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12-14? [SFAS 88, pars. 6 and 12-14 (AC P16.173 and .182-.184)]	—	—	—
a. Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7-8? [SFAS 88, pars. 7-8 (AC P16.174-.175)]	—	—	—
5. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15? [SFAS 88, par. 15 (AC P16.185)]	—	—	—
6. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9-10, 12-13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30? [SFAS 88, pars. 9-10, 12-13 and 15 (AC P16.177, .179, .182-.183 and .185)]	—	—	—
7. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6-8 (AC C38.101-.102)]	—	—	—
8. Are grants to other organizations recorded as expenses and liabilities at the time recipients are entitled to them? (Normally this occurs when the board approves a specific grant or notifies the grantee.) [SOP 78-10, par. 101]	—	—	—
9. Has disclosure of postretirement health care and life insurance benefits been made? [SFAS 81, par. 6-7 (AC P50.102-.103)]	—	—	—

Yes No N/A

K. Remittances to National Organizations

When the organization remits a portion of their receipts to an affiliated state or national organization is this amount properly reported?

[SOP 78-10, par. 90; VHW, p. 29]

\_\_\_ \_\_\_ \_\_\_

L. Prior Period Adjustments

1. Are prior period adjustments limited to correction of an error(s) in financial statements of prior periods?  
[SFAS 16, par. 11 (AC A35.103)]

\_\_\_ \_\_\_ \_\_\_

2. Are prior period adjustments and their resulting effects appropriately disclosed?  
[APB 9, participants. 26 (AC C35.107)]

\_\_\_ \_\_\_ \_\_\_

M. Wills or Trusts

If the organization is certain to receive sizable, but indeterminable amounts under a will or trust, did the organization make adequate disclosure in a footnote to the financial statements regardless of the period of time which is estimated to elapse before the date of receipt?

[FASB 5, par. 17 (AC C59.118); SAS 32 (AU 431.02)]

\_\_\_ \_\_\_ \_\_\_

N. Accounting for a Change in Method of Accounting for Certain Postretirement Benefits\*

1. If an employer changes its method of accounting from (a) the cash basis to an accrual method or (b) one accrual method to another accrual method for postretirement life insurance benefits not provided through a pension plan or for postretirement health care benefits

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\* Effective for fiscal years beginning after December 15, 1986. Earlier application is permitted. Restatement of previously issued annual financial statements is not permitted.

	Yes	No	N/A
(regardless of whether those benefits are provided through a pension plan or through a separate plan), did the employer account for the effect of the change prospectively in the period of change and in future periods? [TB 87-1, par. 3]	_____	_____	_____
2. If the employer did not account for the change prospectively in the period of change and in future periods, did the employer recognize the cumulative effect of the change in net income of the period of the change? [TB 87-1, par. 3]	_____	_____	_____
3. In the financial statements for the period in which the change is adopted was the nature of, the justification for, and the method of accounting for the accounting change disclosed? [TB 87-1, par. 4]	_____	_____	_____
4. Does the justification for the change explain clearly why the newly adopted accounting method is preferable? [TB 87-1, par. 4]	_____	_____	_____
5. Has the effect of adopting the new accounting method on excess of revenue over expenses before and after extraordinary items of the period of the change been disclosed? [TB 87-1, par. 4]	_____	_____	_____
6. Have the following disclosures also been made:			
a. If the effect of the change will be recognized prospectively in the current year and future periods, has the effect and method for prospective recognition been disclosed? [TB 87-1, par.4]	_____	_____	_____
b. Has the effect of the change, when recognized, been included			

	Yes	No	N/A
in income from operations? [TB 87-1, par.4]	—	—	—
c. If the cumulative effect of the change is recognized in net income of the period of the change, as described in paragraph 20 of Opinion 20, has the pro forma effect of retroactive application on excess of revenue over expenses before and after extraordinary items, been disclosed as required by paragraph 21 of Opinion 20? [TB 87-1, par. 4]	—	—	—

#### Additional Financial Statements

##### A. Statement of Changes in Financial Position\*

- |   |   |   |   |
|---|---|---|---|
| 1. If required by SOP 78-10, is a statement of changes in financial position presented as a basic financial statement for each period for which an activity statement or statement of support, revenue, and expenses is presented?<br>[APB 19, par. 7 (AC F40.101)] [SOP 78-10, par. 17, Exhibit C] | — | — | — |
| 2. Does the format provide the most useful portrayal of the reporting entity's financing and investing activities, and changes in financial position and functional expenses?<br>[APB 19, par. 11 (AC F40.105)]   | — | — | — |
| 3. Does the statement of changes in financial position disclose all important aspects of financing and investing activities regardless of whether cash or other elements of working capital are directly affected?<br>[APB 19, par. 8 (AC F40.101-.102); SOP 78-10, pars. 32, 33 and 34]            | — | — | — |
| 4. Does the statement of changes in financial position:   |   |   |   |

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\*See Footnote on Page 1.



Yes No N/A

- a. Begin with excess (deficiency) of support and revenue over expenses before capital additions or similar captions?  
[SOP 78-10, Exhibits 5C, 6D, 8C, 9C, 10C and 12C] — — —
- b. Present additions or deductions of items recognized in determining income or loss that did not provide or use working capital or cash?  
[APB 19, par. 10 (AC F40.104); SOP 78-10, Exhibits 6D, 8C, 9C, 10C and 12C] — — —
- c. Individually disclose the effects of other financing and investing activities, including:
  - (1) Outlays for purchase of long-term assets?  
[SOP 78-10, Exhibits 6D and 8C] — — —
  - (2) Proceeds from sale of long-term assets?  
[SOP 78-10, Exhibit 5C] — — —
  - (3) Issuance, assumption, redemption, and repayment of long-term debt?  
[SOP 78-10, Exhibits 4C and 6D] — — —
- d. Are net changes in each element of working capital disclosed?  
[APB 19, par. 12 (AC F40.106); SOP 78-10, Exhibits 6D, 8C, and 10C] — — —

B. Statement of Cash Flows\*

1. Is a statement of cash flows presented as a basic financial statement for each period for which an activity statement or statements of support, revenue, and

\*See footnote on page 1.

	Yes	No	N/A
expenses is presented? [SFAS 95, par. 3 (AC C25.101)]	—	—	—
2. Does the statement report the cash effects during the period of the entity's operating, investing, financing, and capital activities?	—	—	—
3. Are the effects of investing and financing transactions which affect the entity's financial position but do not directly affect cash flows during the period, reported in related disclosures? [SFAS 95, par. 6 (AC 25.104)]	—	—	—
4. Does the statement of cash flows report net cash provided or used by operating, investing, financing, and capital activities and the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents? [SFAS 95, par. 26 (AC C25.124)]	—	—	—
5. If the direct method is used, does the statement of cash flows separately report:			
a. Cash collected from contributors?	—	—	—
b. Interest and dividends received?	—	—	—
c. Other operating cash receipts (if any)?	—	—	—
d. Cash paid to employees and other suppliers of goods or services?	—	—	—
e. Interest paid?	—	—	—
f. Income taxes paid?	—	—	—
g. Other operating cash payments (if any)? [SFAS 95, par. 27 (AC C25.125)]	—	—	—
6. If the direct method is used, is a separate reconciling schedule of net income to net cash provided by			

	Yes	No	N/A
operating activities presented? [SFAS 95, par.29 (AC C25.127)]	_____	_____	_____
7. Have investing and financing activities that affect recognized assets or liabilities but that do not result in cash receipts or payments been disclosed? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
<b>C. Statement of Functional Expenses</b>			
1. For entities covered by the <i>Audit Guide for Voluntary Health and Welfare Organizations</i> , is a statement of functional expenses presented as a basic financial statement for each period for which a statement of support, revenue, and expenses is presented? [VHW, pp. 29, 44-45]	_____	_____	_____
2. Does the statement of functional expenses contain sufficient information to enable a reader to obtain a general understanding of the nature of the costs of carrying out the organization's activities? [VHW, p. 29]	_____	_____	_____
<b>Tax Status</b>			
1. Do the financial statements, footnotes, and other disclosures in the annual report contain any information or language which may adversely affect the organization's tax status, as for example:			
a. Cause the IRS to assert that the entity is a private foundation (if it is not)?	_____	_____	_____
b. Cause the IRS to claim that the organization is subject to the tax on unrelated business income?	_____	_____	_____
c. Result in the organization being subject to any penalties or taxes (for example, for excess lobbying activities, private investments, imprudent unreasonable compensation, activities not in			

	Yes	No	N/A
accordance with the organization's exempt status)?	_____	_____	_____
2. If the entity's tax exempt status is in question by the IRS, is the impact disclosed in a footnote?	_____	_____	_____
[FASB 5, pars. 1,39 (AC C59.101, C59.145)]	_____	_____	_____

## Checklist for Auditors' Reports on Financial Statements of Nonprofit Organizations

This checklist has been developed by the staff of the Technical Information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page iii is incorporated herein by reference.

### Explanation of References:

- SAS = Statement on Auditing Standards
- AU = Reference to section number in *AICPA Professional Standards*
- ACNO = *AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations*
- SOP = AICPA Statement of Position
- VHW = *AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations*

### Checklist Questionnaire

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- |  | Yes   | No    | N/A   |
|--|-------|-------|-------|
| 1. Does the auditor's report include appropriate:  |       |       |       |
| a. Addressee?<br>[SAS 58, par. 9 (AU 508.09)]  | _____ | _____ | _____ |
| b. Date (or dual dates) of the report?<br>[SAS 1, sec. 530 (AU 530); SAS 58,<br>par. 46 (AU 508.46); SAS 26, pars.<br>15-17 (AU 504.15-.17)]                     | _____ | _____ | _____ |
| c. A title that includes the word independent?<br>[SAS 58, par. 8 (AU 508.08)]   | _____ | _____ | _____ |
| 2. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided?<br>[SAS 1, sec. 220 (AU 220)] | _____ | _____ | _____ |
| 3. Does the reporting language conform to the auditor's standard report on:  |       |       |       |
| a. Financial statements of a single year or period?<br>[SAS 58, par. 8 (AU 508.08)]  | _____ | _____ | _____ |
| b. Comparative financial statements?<br>[SAS 58, par. 8 (AU 508.08)]   | _____ | _____ | _____ |

	Yes	No	N/A
4. Does the report include appropriate language in respect to the following:			
a. Report on only one basic financial statement, there being no scope limitations? [SAS 58, par. 47-48 (AU 508.47-.48)]	—	—	—
b. Report on comparative statements of support revenue and expenses and changes in fund balances? [SAS 58, footnotes 7 and 27]	—	—	—
c. Part of audit was made by other independent auditors and the principal auditor indicates a division of responsibility for the audit in his report? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12-13 (AU 508.12-.13)]	—	—	—
d. Departure from a promulgated accounting principle when conformity would result in a misleading presentation? [SAS 58, pars. 14-15 (AU 508.14-.15)]	—	—	—
e. Report of a predecessor auditor for prior year has not been included with current comparative financial statements? [SAS 7 (AU 315); SAS 58, par. 83 (AU 508.83)]	—	—	—
f. Updating of a previously issued opinion? [SAS 58, pars. 77-78 (AU 508.77-.78)]	—	—	—
g. Comparative financial statements with differing opinions? [SAS 58, pars. 74-76 (AU 508.74-.76)]	—	—	—
h. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14-17 (AU 504.14-.17)]	—	—	—
i. Decision to emphasize a matter? [SAS 58, par. 37 (AU 508.37)]	—	—	—
j. If the auditor will be rendering an opinion on the prior period as well as the current period, has the auditor evaluated whether the prior period information contains sufficient information to constitute a fair presentation in conformity with			

	Yes	No	N/A
GAAP or will additional columns or details be required, or does the auditor need to modify his report? [SAS 58, footnote 27]	_____	_____	_____
k. If the audit report will be used to satisfy the requirements of a Federal grant agreement or if the auditor is reporting on the receipt or disbursement of Federal funds, does the auditor's report include a scope reference to the publication Government Auditing Standards issued by the Comptroller General of the United States? (Government Auditing Standards, 1988 Revision)	_____	_____	_____
5. Has explanatory language been added to the standard auditor's report if:			
a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report? [SAS 58, pars. 16-33 (AU 508.16-.33)]	_____	_____	_____
b. There is a substantial doubt about the entity's ability to continue as a going concern? [SAS 59, par. 12 (AU 341.12)]	_____	_____	_____
c. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34-36 (AU 508.34-.36)]	_____	_____	_____
d. In an updated report on comparative financial statements, the opinion(s) on the prior period(s) is (are) different from the one(s) previously expressed? [SAS 58, pars. 77, 78 and 81-83 (AU 508.77-.78 and .81-.83)]	_____	_____	_____
6. Has a qualified opinion or disclaimer of opinion been expressed if:			
a. Scope limitations precluded application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40-45 (AU 508.40-.45); SAS 31, par. 22 (AU 326.23)]	_____	_____	_____

	Yes	No	N/A
b. The organization has inadequate internal control structure policies and procedures over contributions, and there is a significant risk that such revenue may be materially underrecorded? [VHW, p. 19; ACNO, p. 45]	—	—	—
7. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:			
a. Lack of conformity with GAAP (including inadequate disclosure)? [SAS 58, pars. 49-66 (AU 508.49-.66); SAS 54, par. 18; (AU 317.18); SAS 32, par. 3 (AU 431.03)]	—	—	—
b. Inadequate disclosure? [SAS 58, pars. 55-58 (AU 508.55-.58)]	—	—	—
8. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:			
a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 68 and 71 (AU 508.39, .68, and .71)]	—	—	—
b. Is the reporting language clear and appropriate for the:			
(1) Qualified opinion? [SAS 58, pars. 38-66 (AU 508.38-.66)]	—	—	—
(2) Adverse opinion? [SAS 58, pars. 67-69 (AU 508.67-.69)]	—	—	—
(3) Disclaimer of opinion? [SAS 58, pars. 70-72 (AU 508.70-.72)]	—	—	—
9. Does the report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to opening inventories and/or long-term investments? [SAS 58, par. 42 (AU 508.42)]	—	—	—



	Yes	No	N/A
b. Client representations about related party transactions? [SAS 45, par. 2 (AU 334.12)]	—	—	—
c. Client's refusal to provide written representation? [SAS 19, par. 11 (AU 333.11)]	—	—	—
d. Limitations on scope of lawyer's response? [SAS 12, pars. 12-14 (AU 337.12-.14)]	—	—	—
e. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	—	—	—
f. Errors or irregularities which materially affect the financial statements? [SAS 53, par. 26 (AU 316.26)]	—	—	—
g. Illegal acts by clients? [SAS 54 (AU 317)]	—	—	—
h. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	—	—	—
i. Financial statements issued before the effective date of a Statement of Financial Accounting Standards when disclosure is not made of the effect of a restatement which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, section 410 (AU 9410.13-.15)]	—	—	—
10. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 14, par. 12 (AU 621.12)]	—	—	—
11. For special reports, have the provisions of SAS 62 and SAS 35 been complied with (i.e., does at least one of the following apply):			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 62, pars. 2-10 (AU 623.02-.10)]	—	—	—

	Yes	No	N/A
b. Specified elements, accounts, or items of a financial statement? [SAS 62, pars. 11-18 (AU 623.11-.18); SAS 35 (AU 622)]	—	—	—
c. Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19-31 (AU 623.19-.31)]	—	—	—
d. Financial information that requires a prescribed form of auditor's report? [SAS 62, pars. 32-33 (AU 623.32-.33)]	—	—	—
12. If information is to accompany the basic financial statements and auditor's report in an auditor-submitted document:			
a. Is there a clear distinction between the client's representations and auditor's representations? [SAS 29, par. 20 (AU 551.20)]	—	—	—
b. Does the auditor's report on the accompanying information:			
(1) State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole?	—	—	—
(2) Specifically identify the accompanying information?	—	—	—
(3) State that the accompanying information is presented for purposes of analysis and is not part of the basic financial statements?	—	—	—
(4) State whether the additional information has been subjected to the auditing procedures applied in examining the basic financial statements and the appropriate expression or disclaimer? [SAS 29, pars. 6-11 (AU 551.06-.11)]	—	—	—
13. If an auditor-submitted document with accompanying information (long-form report) is			

Yes No N/A

co-existing with a document that includes just the basic financial statements and auditor's report:

- |  |   |
|--|---|
| <p>a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles?<br/>[SAS 29, par. 21 (AU 551.21)]</p> <p>b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the examination in the auditor's standard (or modified) report?<br/>[SAS 29, par. 20 (AU 551.20)]</p> <p>14. If the document contains interim financial information, has the auditor's report been expanded if required?<br/>[SAS 36, pars. 24-30 (AU 722.24-.30)]</p> <p>15. If a report on internal control structure is to be issued,* is the appropriate form used for:</p> <p>a. Expression of an opinion on the entity's internal control structure in effect as of a specified date or during a specific period of time?<br/>[SAS 30, pars. 37-46 (AU 642.37-.46)]</p> <p>b. Report for restricted use of management, specified regulatory agencies, or other specified third parties based solely on documentation made as part of an audit of financial statements but not sufficient for expressing an opinion on the system?<br/>[SAS 60]</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|--|---|

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\* Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of directors or its audit committee. [SAS 60]

- |   | Yes | No | N/A |
|---|-----|----|-----|
| c. Report on all or part of an entity's internal control structure for restricted use of management or specified regulatory agencies, based on the regulatory agencies' preestablished criteria?<br>[SAS 30, pars. 54-59 (AU 642.54-.59)]   | —   | —  | —   |
| d. Other special purpose reports on all or parts of the entity's internal control structure for restricted use of management, specified regulatory agencies, or other specified third parties?<br>[SAS 30, pars. 60-61 (AU 642.60-.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]                         | —   | —  | —   |
| 16. If reporting on selected financial data that are included in a client-prepared document that contains audited financial statements and the data is derived from the audited financial statements, does the auditor's report indicate the following:   |     |    |     |
| a. That he has examined and expressed an opinion on the complete financial statements?  | —   | —  | —   |
| b. The type of opinion expressed?   | —   | —  | —   |
| c. The specific data on which he is reporting?  | —   | —  | —   |
| d. Whether, in his opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived?<br>[SAS 42, par. 9 (AU 552.09)]   | —   | —  | —   |
| 17. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data?<br>[SAS 42, par. 9 (AU 552.09)] | —   | —  | —   |

Yes No N/A

18. With respect to condensed financial data standing alone:

If the organization publishes condensed financial statements, which do not include all required disclosures, standing alone, did the auditor not report on such data [unless in accordance with SAS 14, pars. 9-14 (elements of financial statements)], and not permit his name to be associated improperly with the data? (ACNO, pp. 41, 42) (Note: the form of report illustrated at SAS 42, pars. 5, 6 AU 552.03-.04 may not be used for a nonpublic entity.) [ACNO, Ch. 7, pp. 41-42]

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19. If the auditor is reporting on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, has the auditor considered whether the financial statements (including the accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used? [SAS 62, pars. 9-10 (AU 623.09-.10)]

\_\_\_\_\_

20. If the organization uses Internal Revenue form 990, "Return of Organizations Exempt from Income Tax," as a uniform annual report by a charitable organization to a state government as well as the Federal government, has the auditor considered the following:

a. Are the financial statements included in the report presented fairly in conformity with GAAP? [Interpretation 10 of SAS 62, Section 623 (AU 9623.47)]

\_\_\_\_\_

b. Whether the financial statements and auditor's report are a matter of public record? [Interpretation 10 of SAS 62, Section 623 (AU 9623.48)]

\_\_\_\_\_

c. Is there public distribution of the financial statements and the accoun-

	Yes	No	N/A
tant's report? [Interpretation 10 of SAS 62, Section 623 (AU 9623.48 & .53)]	—	—	—
d. If the financial statements are not in conformity with GAAP, would it be appropriate to issue a special report? [Interpretation 10 of SAS 62, Section 623 (AU 9623.50-.52)]	—	—	—

Checklist for Auditors' Reports on Internal Control Structure and Compliance with Laws and Regulations in Accordance with OMB Circular A-133 \*

This checklist has been developed by the staff of the Technical Information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page iii is incorporated herein by reference.

Explanation of References:

- OMB = Office of Management and Budget
- GAS = *Government Auditing Standards* ("Yellow Book", issued by GAO, 1988 Revision)
- SAS = *Statement on Auditing Standards*
- AU = Reference to section number in *AICPA Professional Standards* (vol. 1) of SAS cited
- ACNO = *AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations*
- VHW = *AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations*

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\* On March 8, 1990, The Office of Management and Budget issued Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*, to implement a "single audit" requirement for nonprofit institutions. The requirements of Circular A-133 are similar to those of Circular A-128, i.e. Circular A-133 requires that the auditor perform the audit in accordance with *Government Auditing Standards* (the "Yellow Book") issued by the Comptroller General of the United States.

Circular A-133, which supersedes the audit provisions of Circular A-110, is effective for audits of fiscal years beginning on or after January 1, 1990. Since Circular A-133 permits biennial audits, some institutions may not be required to follow its requirements until the audit of their financial statements for the fiscal year ending June 30, 1992. However, the audit provisions of Attachment F to Circular A-110 are to be followed until Circular A-133 is implemented.

*Statement on Auditing Standards No. 63, Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*, provides guidance on planning, performing, and reporting on the compliance aspects of audits in accordance with GAAS, GAO Standards, and Circular A-128. Since Circular A-133 establishes requirements similar to those of Circular A-128, the guidance in SAS 63 would apply to audits performed under OMB Circular A-133.

## Checklist Questionnaire

	Yes	No	N/A
1. Does the auditor's report contain a statement that the audit was made in accordance with generally accepted government auditing standards as well as in accordance with generally accepted auditing standards? [GAS, Ch. 5, p. 1]	_____	_____	_____
2. Does the auditor's report contain a report on the organization's schedule of federal financial assistance programs, which:			
a. Identifies major programs?	_____	_____	_____
b. Shows total expenditures for each program? [OMB Circular A-133, item 15c(1)]	_____	_____	_____
3. Does the report on compliance contain:			
a. A statement of positive assurance for those items which were tested for compliance and negative assurance on those items not tested?	_____	_____	_____
b. All material instances of noncompliance, and all instances or indications of illegal acts which could result in criminal prosecution? [GAS, Ch. 5, p.2 and Ch.7, p. 7; SAS 63, par. 18 (AU 801.18)]	_____	_____	_____
4. Does the report on compliance with laws and regulations contain:			
a. A statement that the auditor has audited the financial statements and a reference to the auditor's report on the financial statements?	_____	_____	_____
b. A statement that the audit was conducted in accordance with generally accepted auditing standards and with Government Auditing Standards issued by the Comptroller General of the United States?	_____	_____	_____
c. A statement that those standards require			



	Yes	No	N/A
that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement?	_____	_____	_____
d. A statement that management is responsible for compliance with laws, regulations, contracts, and grants?	_____	_____	_____
e. A statement that, as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, the auditor performed tests of compliance with certain provisions of laws, regulations, contracts, and grants?	_____	_____	_____
f. A statement that the auditor's objective was not to provide an opinion on overall compliance with such provisions?	_____	_____	_____
g. A statement of positive assurance that the results of the tests indicate that, with respect to the items tested, the entity complied, in all material respects, with the provisions of laws, regulations, contracts, and grants referred to in item e. above?	_____	_____	_____
h. A statement of negative assurance that, with respect to items not tested, nothing came to the auditor's attention that caused him to believe that the entity had not complied, in all material respects, with the provisions of laws, regulations, contracts, and grants referred to in item e. above?	_____	_____	_____
i. A statement that the audit report is intended for the information of the audit committee, management, and specific legislative or regulatory bodies, but that this restriction is not intended to limit the distribution of the report, if a matter of public record?	_____	_____	_____
j. The manual or printed signature of the auditor's firm?	_____	_____	_____
k. The date of the auditor's report?	_____	_____	_____

[SAS 63, par 21 (AU 801.21)]

	Yes	No	N/A
5. If the financial audit did not require tests of compliance with laws and regulations, did the report contain a statement that the auditor did not test for compliance with laws and regulations? [GAS, Ch. 5, p. 3]	—	—	—
6. If the auditing procedures disclosed material instances of noncompliance, have the statements of positive and negative assurance been modified? [SAS 63, par. 24 (AU 801.24)]	—	—	—
7. Does the qualified report include:			
a. The definition of material instances of noncompliance noted?	—	—	—
b. An identification of material instances of noncompliance tested?	—	—	—
c. A statement that the noncompliance noted was considered in forming an opinion on whether the organization's financial statements are presented fairly, in conformity with generally accepted accounting principles? [SAS 63, par. 24 (AU 801.24)]	—	—	—
8. If the report contains material instances of noncompliance, is a statement included about:			
a. Whether the misstatements have been corrected?	—	—	—
or			
b. A statement describing the effect of such misstatements in the auditor's report on the basic financial statements? [SAS 63, par. 25 (AU 801.25)]	—	—	—
9. Are immaterial instances of noncompliance reported in a separate communication to the organization? [SAS 63, par. 27 (AU 801.27)]	—	—	—
10. If a separate communication describing immaterial instances of noncompliance has been issued, is the report modified to include a			

	Yes	No	N/A
statement such as the following: "We noted certain immaterial instances of noncompliance that we have reported to the management of [name of organization] in a separate letter dated [date of communication]"? [SAS 63, par. 27 (AU 801.27)]	—	—	—
11. Does the auditor's report on internal control address the auditor's understanding of the organization's internal control structure and the assessment of control risk made as part of the financial statement audit? [GAS, ch. 5, p. 5]	—	—	—
12. Does the report on internal control structure include, at a minimum:			
a. The scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk?	—	—	—
b. The entity's significant internal controls established to ensure compliance with laws and regulations that have a material impact on the financial statements and results of the financial related audit?	—	—	—
c. The reportable conditions, including the identification of material weaknesses, identified as a result of the auditor's work in understanding and assessing control risk? [GAS, Ch. 5, pp. 5 - 6, and Ch. 7, pp. 5 - 6]	—	—	—
13. If the auditor has noted reportable conditions in the financial statement audit conducted in accordance with Government Auditing Standards, does the auditor's report on the internal control structure contain:			
a. A statement that the auditor has audited the financial statements and a reference to the auditor's report on the financial statements?	—	—	—
b. A statement that the audit was conducted in accordance with generally accepted auditing standards and with Government Auditing			

	Yes	No	N/A
Standards issued by the Comptroller General of the United States?	—	—	—
c. A statement that, in planning the audit of the financial statements, the auditor considered the entity's internal control structure in order to determine the auditing procedures for purposes of expressing an opinion on the financial statements and not to provide assurance on the internal control structure?	—	—	—
d. A statement that the establishment and maintenance of the internal control structure are the responsibilities of management?	—	—	—
e. An explanation of the broad objectives and inherent limitations of any internal control structure?	—	—	—
f. A description of the entity's significant internal control structure policies and procedures categories considered as part of the auditor's understanding of the structure?	—	—	—
g. A description of the scope of the auditor's work stating that the auditor obtained an understanding of the design of relevant policies and procedures and whether those policies and procedures have been placed in operation, and assessed control risk?	—	—	—
h. The definition of reportable conditions?	—	—	—
i. A description of the reportable conditions noted?	—	—	—
j. The definition of material weakness?	—	—	—
k. A statement about whether the auditor believes any of the reportable conditions described in the report are material weaknesses, and if they are, identifies the material weaknesses noted?	—	—	—
l. If applicable, a statement that other matters involving the internal controls			

	Yes	No	N/A
structure and its operation were communicated to management in a separate letter?	_____	_____	_____
m. A statement that the report is intended for the information of the audit committee, management, and specific legislative or regulatory bodies, but that this restriction is not intended to limit the distribution of the report, if a matter of public record? [SAS 63, par. 37 (AU 801.37)]	_____	_____	_____
14. If no reportable conditions were noted during the audit, was a report in accordance with SAS 63, paragraph 39, issued? [SAS 63, par. 39 (AU 801.39)]	_____	_____	_____
15. For major programs, does the report on compliance with specific requirements include:			
a. A statement that the entity's compliance with the requirements identified in the report was audited and, if applicable, that the auditor also performed an audit of the entity's financial statements and issued a report thereon?	_____	_____	_____
b. A statement that compliance with the requirements in item a. above is the responsibility of the entity's management and that the auditor's responsibility is to express an opinion on compliance with those requirements based on the audit?	_____	_____	_____
c. A statement that the audit was conducted in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and OMB Circular A-133, <u>Audits of Institutions of Higher Education and Other Nonprofit Organizations</u> ?	_____	_____	_____
d. A statement that generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and OMB Circular A-133 require that the auditor plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements			

	Yes	No	N/A
referred to in item a. above occurred?	_____	_____	_____
e. A statement that an audit includes examining, on a test basis, evidence about the entity's compliance with the requirements referred to in item a. above?	_____	_____	_____
f. A statement that the auditor believes that his or her audit provides a reasonable basis for an opinion?	_____	_____	_____
g. A summary of all instances of noncompliance noted and identification of amounts questioned or reference to a separate schedule of findings and questioned costs?	_____	_____	_____
h. A statement that noncompliance or questioned costs noted were considered in forming an opinion as to whether the entity complied in all material respects with requirements referred to in item a. above?	_____	_____	_____
i. An opinion as to whether the entity complied in all material respects with the requirements referred to in item a. above?	_____	_____	_____
j. The manual or printed signature of the auditor's firm?	_____	_____	_____
k. The date of the auditor's report? [SAS 63, par. 73 (AU 801.73)]	_____	_____	_____
16. If restrictions on the scope of an audit on compliance require the auditor to qualify or disclaim his opinion, are the reasons for such qualification or disclaimer described in the auditor's report? [SAS 63, par. 75 (AU 801.75)]	_____	_____	_____
17. If the auditor is disclaiming an opinion due to a scope limitation:			
a. Were the reasons indicated, in a separate paragraph, why the audit did not comply with generally accepted auditing standards, Government Auditing Standards or OMB Circular A-133?	_____	_____	_____
b. Did the auditor state that the scope of the			

	Yes	No	N/A
audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Did the auditor disclose any reservations he or she had regarding compliance with applicable laws and regulations? [SAS 63, par. 77 (AU 801.77)]	_____	_____	_____
18. If the auditor expresses a qualified or adverse opinion due to noncompliance with requirements governing a major federal financial assistance program, did the auditor state the basis for such an opinion in the report? [SAS 63, par. 78 (AU 801.78)]	_____	_____	_____
19. For major programs, does the report on compliance with general requirements include:			
a. A statement identifying the general requirements tested?	_____	_____	_____
b. A statement that the auditor's procedures were limited to the applicable procedures described in the Compliance Supplement or that describes alternative procedures?	_____	_____	_____
c. A statement that the auditor's procedures were substantially less in scope than an audit and a disclaimer of opinion on compliance with the general requirements?	_____	_____	_____
d. A statement of positive assurance that, with respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the general requirements?	_____	_____	_____
e. A statement of negative assurance that, with respect to items not tested, nothing came to the auditor's attention that caused him or her to believe that the entity had not complied, in all material respects, with the general requirements?	_____	_____	_____
f. A summary of all instances of noncompliance noted and identification of amounts questioned or reference to a separate schedule of findings and questioned costs?	_____	_____	_____

	Yes	No	N/A
g. A statement that the report is intended for the information of the audit committee, management, and specific legislative or regulatory bodies, but that this restriction is not intended to limit the distribution of the report, if a matter of public record?	_____	_____	_____
h. The manual or printed signature of the auditor's firm?	_____	_____	_____
i. The date of the auditor's report?	_____	_____	_____
20. For nonmajor programs does the report on compliance include:			
a. A statement identifying the requirements tested?	_____	_____	_____
b. A statement that the procedures for testing compliance with the specific requirements applicable to nonmajor federal financial assistance programs are required by OMB Circular A-133?	_____	_____	_____
c. A statement that these procedures were performed in connection with an audit of the financial statements and with the auditor's obtaining an understanding of internal control structure and assessment of control risk over federal financial assistance programs, as required by OMB Circular A-133?	_____	_____	_____
d. A statement that the auditor's procedures were substantially less in scope than an audit, and a disclaimer of an opinion on compliance with the requirements identified?	_____	_____	_____
e. A statement of positive assurance that, with respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the specific requirements identified?	_____	_____	_____
f. A statement of negative assurance that, with respect to items not tested, nothing came to the auditor's attention that caused him or her to believe that the			



	Yes	No	N/A
entity had not complied, in all material respects, with the specific requirements identified?	_____	_____	_____
g. A summary of all instances of noncompliance noted and identification of amounts questioned or reference to a separate schedule of findings and questioned costs?	_____	_____	_____
h. A statement that the report is intended for the information of the audit committee, management, and specific legislative or regulatory bodies, but that this restriction is not intended to limit the distribution of the report, if a matter of public record?	_____	_____	_____
i. The manual or printed signature of the auditor's firm?			
j. The date of the auditor's report? [SAS 63, par. 87 (AU 801.87)]	_____	_____	_____
21. If required by contractual obligations, were findings presented in accordance with the guidance in Government Auditing Standards regarding reporting on performance audits? [GAS, Ch. 2, pp. 3-5]	_____	_____	_____
22. If the auditor is not able to follow an applicable standard and is not able to withdraw from the engagement, did the auditor disclose in the scope section of the report the fact that an applicable standard was not followed, the reasons therefor, and the known effect of not following the standard had on the results of the audit? [GAS, Ch. 3, p. 10]	_____	_____	_____
23. Was the determination that certain standards do not apply to the audit documented in the work papers? [GAS, Ch. 3, p.16]	_____	_____	_____
24. Does the auditor's report disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that could have an effect the current audit objective? [GAS, Ch. 3, p. 16]	_____	_____	_____

	Yes	No	N/A
25. Does the auditor's report disclose audit scope impairments in the scope section of the report and the known effect it had on the results of the audit? [GAS, Ch. 3, p. 17]	_____	_____	_____

Checklist for Accountants' Reports on Compiled or  
Reviewed Financial Statements of Nonprofit Organizations\*

This checklist has been developed by the staff of the Technical Information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page iii is incorporated herein by reference.

Explanation of References:

SSARS = Statement on Standards for Accounting  
and Review Services

AR = Reference to section number in *AICPA  
Professional Standards (vol. 2) of  
SSARS cited*

Checklist Questionnaire

	Yes	No	N/A
1. Is the report appropriately worded?	___	___	___
a. For compiled financial statements does the report state that:			
(1) A compilation has been performed in accordance with standards established by the American Institute of Certified Public Accountants?	___	___	___
(2) A compilation is limited to presenting in the form of financial statements information that is the representation of management? [See SSARS No. 3, par. 3 (AR 300.03) for different wording that may be used when the financial statements are included in a prescribed form and the form or related instructions call for departure from generally accepted accounting principles.]	___	___	___
(3) The financial statements have not			

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\* It is assumed that the nonprofit organization meets the criteria of a nonpublic entity as defined in SSARS No. 1, par. 100.04.

	Yes	No	N/A
<p>been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them?</p> <p>[SSARS No. 1, par. 14 (AR 100.14); SSARS No. 5, par. 1 (AR 500.01)]</p>	_____	_____	_____
b. For reviewed financial statements does the report state that:			
(1) A review was performed in accordance with standards established by the American Institute of Certified Public Accountants?	_____	_____	_____
(2) All information included in the financial statements is the representation of the management of the entity?	_____	_____	_____
(3) A review consists principally of inquiries of organization personnel and analytical procedures applied to financial data?	_____	_____	_____
(4) A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed?	_____	_____	_____
(5) The accountant is not aware of any material modification that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, with another comprehensive basis of accounting, other than those modifications, if any, indicated in his report?	_____	_____	_____
[SSARS No. 1, par. 32 (AR 100.32)]	_____	_____	_____
c. For both compiled and reviewed financial statements, does the report exclude a description of any other procedures that the accountant might have			

	Yes	No	N/A
performed before or during the engagement? [SSARS No. 1, pars. 14 & 32 (AR 100.14 & 100.32)]	_____	_____	_____
2. For compiled financial statements that contain departures* from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting:			
a. If the departure is the omission in compiled financial statements of substantially all required disclosures does the accountant's report clearly indicate such omission? [SSARS No. 1, pars. 19 & 21 (AR 100.19 & 100.21)]	_____	_____	_____
b. If compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles include disclosures about only a few matters in the form of notes to such financial statements, are such disclosures labeled "Selected Information - Substantially All Disclosures Required by Generally Accepted Accounting Principles or, where applicable, another comprehensive basis of accounting Are Not Included"? [SSARS No. 1, par. 19 (AR 100.19)]	_____	_____	_____
c. If compiled financial statements that omit substantially all required disclosures are prepared on a basis of accounting other than generally accepted accounting principles, and if such financial statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting? [SSARS No. 1, par. 20 (AR 100.20)]	_____	_____	_____

---

\* Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS No. 3 [AR 300] compilation report on financial statements included in a prescribed form.

	Yes	No	N/A
d. If compiled financial statements contain a departure from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, did the accountant modify his report to disclose the departure? [SSARS No. 1, par. 39 (AR 100.39)]	—	—	—
(1) If yes, did the accountant's modified report disclose the departure in a separate paragraph? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
(2) If the effects of the departure on the financial statements have been determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
(3) If the effects of the departure on the financial statements have not been determined, has the accountant stated this in his report? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
3. For reviewed financial statements that contain departures from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting (including the omission of required disclosures), did the accountant modify his report to disclose the departures? [SSARS No. 1, par. 39 (AR 100.39)]	—	—	—
a. If yes, did the accountant's modified report disclose the departures in a separate paragraph? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
b. If the effects of the departures on the financial statements have been determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—

- |   | Yes | No | N/A |
|---|-----|----|-----|
| c. If the effects of the departures on the financial statements have not been determined, has the accountant stated this in his report?<br>[SSARS No. 1, par. 40 (AR 100.40)]   | —   | —  | —   |
| 4. If the accountant is not independent with respect to the entity for which he has compiled financial statements, did the accountant state in the last paragraph of his report, "I am (We are) not independent with respect to XYZ organization"?<br><br>(The accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he is not independent.)<br>[SSARS No. 1, pars. 22 & 38 (AR 100.22 & 100.38)] | —   | —  | —   |
| 5. Is the report dated?   | —   | —  | —   |
| 6. a. Does each page of the financial statements compiled by the accountant include a reference such as "See Accountant's Compilation Report"?<br>[SSARS No. 1, par. 16 (AR 100.16)]  | —   | —  | —   |
| or  |     |    |     |
| b. Does each page of the financial statements reviewed by the accountant include a reference such as "See Accountant's Review Report"?<br>[SSARS No. 1, par. 34 (AR 100.34)]  | —   | —  | —   |
| 7. When accompanying information is presented with the financial statements, did the accountant clearly indicate his degree of responsibility with respect to such information as follows:  |     |    |     |
| a. If the basic financial statements were reviewed, was the degree of responsibility disclosed in the report or in a separate report on the other data that states:   |     |    |     |
| (1) The review has been made primarily for the purpose of expressing limited as-  |     |    |     |

Yes No N/A

assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, another comprehensive basis of accounting?

\_\_\_\_\_

and either:

- (a) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and the accountant did not become aware of any material modifications that should be made to such data,

\_\_\_\_\_

or

- (b) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data?

\_\_\_\_\_

[SSARS No. 1, par. 43 (AR 100.43)]

- b. If the accountant has compiled both the basic financial statements and other data which is presented for supplementary analysis purposes, does the compilation report also include the other data?

\_\_\_\_\_

[SSARS No. 1, par. 43 (AR 100.43)]

8. If an audit engagement has been changed to a review or compilation, does the report



	Yes	No	N/A
omit reference to: a) the original engagement, b) any auditing procedures that may have been performed, c) any scope limitation that resulted in the changed engagement? [SSARS No. 1, par. 49 (AR 100.49)]	—	—	—
9. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS No. 2, par. 2 (AR 200.02)]	—	—	—
10. Is the report appropriate for the current status of the entity? [SSARS No. 2, pars. 31-32 (AR 200.31-.32)]	—	—	—
11. Does each page of the comparative financial statements compiled or reviewed include a reference such as "See Accountant's Report"? [SSARS No. 2, par. 6 (AR 200.06)]	—	—	—
12. If compiled financial statements which omit substantially all of the disclosures required by generally accepted accounting principles are included among the comparative financial statements, do all the periods presented also omit such disclosures and does the accountant's compilation report include an additional paragraph which indicates:			
a. The nature of the previous service rendered (compilation, review, or audit)?	—	—	—
b. Date of the previous report?	—	—	—
c. Appropriate language in accordance with SSARS No. 1, paragraphs 19-20 and SSARS No. 2, paragraph 30? [SSARS No. 1, pars. 19-21 (AR 100.19-.21); SSARS No. 2, pars. 5 & 29-30 (AR 200.05 & 200.29-.30)]	—	—	—
13. If the level of service performed by the continuing accountant on the current-period financial statements is the same or higher than that performed on the financial statements of the prior period presented, has the continuing accountant's report on the			

prior period been updated?  
[SSARS No. 2, pars. 8-10 (AR 200.08-.10)]

a. Does the report on the current period include a separate paragraph which describes the responsibility assumed for the prior period?

b. Is the report on the current period accompanied by or combined with a reissued report on the financial statements of the prior period presented?

15. If the report requires a changed reference to a departure from generally accepted accounting principles regarding the prior period presented, does the explanatory paragraph in the report include:

b. Description of the circumstances or events underlying the change?

[SSARS No. 2, pars. 14-15 (AR 200.14-.15)]

a. Made appropriate reference in his report to the predecessor's report in accordance with SSARS No. 2?

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	Yes	No	N/A
b. Performed a compilation, review, or audit of the statements of the prior period and reported on them accordingly? [SSARS No. 2, pars. 16-19 (AR 200.16-.19)]	—	—	—
17. If the financial statements of the prior period presented have been changed, has the predecessor or successor reported on them as presented? [SSARS No. 2, pars. 25-26 (AR 200.25-.26)]	—	—	—
18. If the current-period financial statements were compiled or reviewed and the financial statements of the prior period presented were audited and the audit report has not been reissued, does the current-period report include a separate paragraph which contains the following:			
a. Statement that the prior period financial statements were examined previously?	—	—	—
b. Date of the previous report?	—	—	—
c. Type of opinion expressed previously?	—	—	—
d. If the opinion was other than unqualified, the substantive reasons therefor?	—	—	—
e. That no auditing procedures were performed after the date of the previous report? [SSARS No. 2, par. 28 (AR 200.28)]	—	—	—

[For guidance on situations when the current period is audited and the prior period is compiled or reviewed, see Statement on Auditing Standards No. 26 (AU 504).]

# Illustrative Financial Statements

## **Illustrative Auditors' Reports and Financial Statements**

The following illustrative auditors' reports and financial statements (exhibits 1 through 6) demonstrate the practical applications of the reporting practices discussed in Statement of Position 78-10 and the AICPA Industry Audit Guide for Voluntary Health and Welfare Organizations. Specific types of nonprofit organizations have been selected to illustrate a wide diversity of reporting practices; it is not intended that these illustrations represent either the only types of disclosure or the only statement formats that would be appropriate. Nonprofit organizations are urged to develop financial statement formats that are appropriate for their individual circumstances while being consistent with the accounting and reporting practices discussed in SOP 78-10 and the AICPA Industry Audit Guide for Voluntary Health and Welfare Organizations.

## **Illustrative Auditors' Report—Nonprofit Organization**

We have audited the the accompanying balance sheet of Sample Nonprofit Organization as of December 31, 19X2 and the related statement of revenues, expenses, and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Nonprofit Organization as of December 31, 19X2, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

# EXHIBIT 1—INDEPENDENT SCHOOL

## EXHIBIT 1A

### Sample Independent School Balance Sheet

June 30, 19X1

	Operating Funds	Plant Funds	Endowment Funds	Total All Funds
<b>Assets</b>				
Cash	\$ 87,000	\$ 15,000	\$ 19,000	\$ 121,000
Accounts receivable, less allowance for doubtful receivables of \$3,000	34,000	—	—	34,000
Pledges receivable, less allowance for doubtful pledges of \$10,000	—	75,000	—	75,000
Inventories, at lower of cost (FIFO) or market	7,000	—	—	7,000
Investments (Note 2)	355,000	10,000	100,000	465,000
Land, buildings, equipment, and library books, at cost less accumulated depreciation of \$980,000 (Note 3)	—	2,282,000	—	2,282,000
Other assets	17,000	—	—	17,000
Total assets	<u>\$500,000</u>	<u>\$2,382,000</u>	<u>\$119,000</u>	<u>\$3,001,000</u>
<b>Liabilities and Fund Balances</b>				
Accounts payable and accrued expenses	\$ 13,000	—	—	\$ 13,000
Deferred amounts (Note 6)				
Unrestricted	86,000	—	—	86,000
Restricted	27,000	\$ 100,000	—	127,000
Long-term debt (Note 4)	—	131,000	—	131,000
Total liabilities	<u>126,000</u>	<u>231,000</u>	<u>—</u>	<u>357,000</u>
Fund balances				
Unrestricted				
Designated by the governing board for long-term investment	355,000	—	—	355,000
Undesignated	19,000	—	—	19,000
	<u>374,000</u>	<u>—</u>	<u>—</u>	<u>374,000</u>
Restricted—nonexpendable	—	—	\$119,000	119,000
Net investment in plant	—	2,151,000	—	2,151,000
Total fund balances	<u>374,000</u>	<u>2,151,000</u>	<u>119,000</u>	<u>2,644,000</u>
Total liabilities and fund balances	<u>\$500,000</u>	<u>\$2,382,000</u>	<u>\$119,000</u>	<u>\$3,001,000</u>

**EXHIBIT 1B**

**Sample Independent School  
Statement of Support and Revenue, Expenses,  
Capital Additions, and Changes in Fund Balances**

**Year Ended June 30, 19X1**

	Operating Funds			Plant	Endowment	Total
	Unrestricted	Restricted	Total	Funds	Funds	All Funds
<b>Support and Revenue</b>						
Tuition and fees	\$ 910,000	—	\$ 910,000	—	—	\$ 910,000
Contributions	104,000	\$80,500	184,500	—	—	184,500
Endowment and other investment income	23,000	1,500	24,500	—	—	24,500
Net loss on investment transactions	(8,000)	—	(8,000)	—	—	(8,000)
Auxiliary activities	25,000	—	25,000	—	—	25,000
Summer school and other programs	86,000	—	86,000	—	—	86,000
Other sources	26,000	—	26,000	—	—	26,000
Total support and revenue	<u>1,166,000</u>	<u>82,000</u>	<u>1,248,000</u>	<u>—</u>	<u>—</u>	<u>1,248,000</u>
<b>Expenses</b>						
Program services						
Instruction and student activities	798,000	43,000	841,000	\$ 69,000	—	910,000
Auxiliary activities	24,000	—	24,000	—	—	24,000
Summer school and other programs	91,000	—	91,000	7,000	—	98,000
Financial aid	—	37,000	37,000	3,000	—	40,000
Total program services	<u>913,000</u>	<u>80,000</u>	<u>993,000</u>	<u>79,000</u>	<u>—</u>	<u>1,072,000</u>
Supporting services						
General administration	147,000	2,000	149,000	13,000	—	162,000
Fund raising	12,000	—	12,000	1,000	—	13,000
Total supporting services	<u>159,000</u>	<u>2,000</u>	<u>161,000</u>	<u>14,000</u>	<u>—</u>	<u>175,000</u>
Total expenses	<u>1,072,000</u>	<u>82,000</u>	<u>1,154,000</u>	<u>93,000</u>	<u>—</u>	<u>1,247,000</u>
Excess (deficiency) of support and revenue over expenses before capital additions	<u>94,000</u>	<u>—</u>	<u>94,000</u>	<u>(93,000)</u>	<u>—</u>	<u>1,000</u>
<b>Capital additions</b>						
Contributions and bequests	—	—	—	80,000	\$ 30,000	110,000
Investment income	—	—	—	5,000	—	5,000
Net gain on investment transactions	—	—	—	1,000	2,000	3,000
Total capital additions	<u>—</u>	<u>—</u>	<u>—</u>	<u>86,000</u>	<u>32,000</u>	<u>118,000</u>
Excess (deficiency) of support and revenue over expenses after capital additions	<u>94,000</u>	<u>—</u>	<u>94,000</u>	<u>(7,000)</u>	<u>32,000</u>	<u>119,000</u>
Fund balances at beginning of year	387,000	—	387,000	2,047,000	91,000	2,525,000
<b>Transfers</b>						
Equipment acquisitions and principal debt service payments	(111,000)	—	(111,000)	111,000	—	—
Realized gains on endowment funds utilized	<u>4,000</u>	<u>—</u>	<u>4,000</u>	<u>—</u>	<u>(4,000)</u>	<u>—</u>
Fund balances at end of year	<u>\$ 374,000</u>	<u>—</u>	<u>\$ 374,000</u>	<u>\$2,151,000</u>	<u>\$119,000</u>	<u>\$2,644,000</u>



**EXHIBIT 1C**

**Sample Independent School  
Statement of Cash Flows\***

**Year Ended June 30, 19X1**

	<u>Operating Funds</u>	<u>Plant Funds</u>	<u>Endowment Funds</u>	<u>Total All Funds</u>
Cash flows from operating activities				
Tuition, fees and auxiliary activities	\$ 1,044,000	—	—	\$ 1,044,000
Endowment and investment income	24,500	—	—	24,500
Contributions	187,500	—	—	187,500
Cash paid to suppliers and employees	(1,145,000)	—	—	(1,145,000)
Interest paid	(11,000)	—	—	(11,000)
Net cash flow from operating activities	<u>100,000</u>	<u>—</u>	<u>—</u>	<u>100,000</u>
Capital cash flows				
Contributions	—	\$ 95,000	\$ 30,000	125,000
Investment income	—	5,000	—	5,000
Net capital cash flows	<u>—</u>	<u>100,000</u>	<u>30,000</u>	<u>130,000</u>
Cash flows from financing activities				
Repayments of long-term debt	—	(52,000)	—	(52,000)
Net cash flow from financing activities	<u>—</u>	<u>(52,000)</u>	<u>—</u>	<u>(52,000)</u>
Cash flows from investing activities				
Land, buildings, equipment and library books				
Purchases	—	(145,000)	—	(145,000)
Proceeds from sales	—	—	—	—
Investments				
Purchases	(210,000)	(6,000)	(136,000)	(352,000)
Proceeds	160,000	2,000	47,000	209,000
Net cash flow from investing activities	<u>(50,000)</u>	<u>(149,000)</u>	<u>(89,000)</u>	<u>(288,000)</u>
Increase (decrease) in cash	50,000	(101,000)	(59,000)	(110,000)
Transfers				
Equipment acquisitions and principal debt service payments	(111,000)	111,000	—	—
Realized gains on endowment funds utilized	4,000	—	(4,000)	—
Net increase (decrease) in cash	<u>(57,000)</u>	<u>10,000</u>	<u>(63,000)</u>	<u>—</u>
Cash				
Beginning of year	144,000	5,000	82,000	231,000
End of year	<u>\$ 87,000</u>	<u>\$ 15,000</u>	<u>\$ 19,000</u>	<u>\$ 121,000</u>

\*See footnote on page 1.

## EXHIBIT 1D

### Sample Independent School Notes to Financial Statements

Year Ended June 30, 19X1

#### Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Independent School have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

##### *Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of resources available to the school, the accounts of the school are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the school are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of school operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

##### *Expendable Restricted Resources*

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the school has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

##### *Plant Assets and Depreciation*

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

##### *Other Matters*

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

**Note 2—Investments**

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

	<u>Cost</u>	<u>Market</u>
Operating funds	\$355,000	\$365,000
Plant funds	10,000	11,000
Endowment funds	100,000	109,000
	<u>\$465,000</u>	<u>\$485,000</u>

Investments are composed of the following:

	<u>Cost</u>	<u>Market</u>
Corporate stocks and bonds	\$318,000	\$320,000
U.S. government obligations	141,000	159,000
Municipal bonds	6,000	6,000
	<u>\$465,000</u>	<u>\$485,000</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

	<u>Carrying Value</u>	<u>Market Value</u>	<u>Excess of Market Over Cost</u>
Balance at end of year	<u>\$465,000</u>	<u>\$485,000</u>	\$20,000
Balance at beginning of year	<u>\$327,000</u>	<u>\$335,000</u>	8,000
Increase in unrealized appreciation			12,000
Realized net loss for year			(5,000)
Total net gain for year			<u>\$ 7,000</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X1.

**Note 3—Inventories**

Inventories at June 30, 19X1 consist of:

Paper and supply stock	\$2,000
Textbooks	5,000
	<u>\$7,000</u>

**Note 4—Plant Assets and Depreciation**

A summary of plant assets follows:

Land	\$ 255,000
Buildings	2,552,000
Equipment	340,000
Library books	115,000
	<u>3,262,000</u>
Less accumulated depreciation	980,000
	<u>\$2,282,000</u>

**Note 5—Long-Term Debt**

A summary of long-term debt follows:

7½% unsecured notes payable to bank due in quarterly installments of \$2,500	\$ 29,000
8½% mortgage payable in semiannual installments of \$3,500 through 19X7	102,000
	<u>\$131,000</u>

Long-term debt maturing in the next five years consists of:

19X2	\$17,000
19X3	17,000
19X4	16,000
19X5	7,000
19X6	7,000
Total	<u>\$64,000</u>

#### Note 6—Pension Plans

Effective July 1, 19X0 the school adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended June 30, 19X1 was a reduction of \$XX,XXX.

A summary of the components of income follows:

Service cost—benefits earned during the year	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX
Actual return on plan assets	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)
Amortization of unrecognized net asset	<u>(XX,XXX)</u>
Net periodic pension income	<u>\$ (XX,XXX)</u>

Funded status of the plan:

Actuarial present value of benefit obligation

Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1	<u>\$ (XX,XXX)</u>
Projected benefit obligation for service rendered to date	(XX,XXX)

Assets available for benefits

Plan assets at fair value, primarily listed stocks and U.S. government securities	<u>XXX,XXX</u>
Plan assets in excess of benefit obligation	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX
Unrecognized net assets at July 1, 19X0 being recognized over XX years	<u>(XX,XXX)</u>
Prepaid pension cost included in other assets	<u>\$ XX,XXX</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1, \$X,XXX of the vested benefit portion of the projected benefit obligation was settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the school recognized gains of \$X,XXX in 19X1.

#### Note 7—Postretirement Health Care and Life Insurance Benefits

Sample Independent School offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees. Sample Independent School shares the cost of providing these benefits with all affected retirees. Sample Independent School's cost of providing such benefits is recognized by expensing the insurance programs' premiums as paid. The aggregate amount so expensed totalled \$XX,XXX for the year ended June 30, 19X1. Sample Independent School has made no provision for recognizing the cost or postretirement benefits which may eventually be paid to employees who have not yet retired.

**Note 8—Changes in Deferred Restricted Amounts**

	Operating Funds	Plant Fund
Balances at beginning of year	\$ 24,000	\$ 25,000
Additions		
Contributions and bequests	79,000	158,000
Investment income	6,000	1,000
Net gain on investment transactions	—	2,000
	<u>109,000</u>	<u>186,000</u>
Deductions—funds expended during the year	<u>82,000</u>	<u>86,000</u>
Balances at end of year	<u>\$ 27,000</u>	<u>\$100,000</u>

**Note 9—Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 10—Commitments**

The school has entered into various agreements aggregating approximately \$80,000 for the purchase of equipment to be received subsequent to June 30, 19X1.

## EXHIBIT 2—UNION

### EXHIBIT 2A

### Sample Union Balance Sheet

**December 31, 19X1**  
**(With Comparative Totals for 19X0)**

	General Fund (Undesignated)	Strike Insurance Fund (Designated)	December 31, 19X1 Total	December 31, 19X0 Total
<b>Assets</b>				
Current assets				
Cash (including savings accounts of \$2,100,000 and \$1,050,000) (Note 3)	\$ 650,800	\$ 1,710,000	\$ 2,360,800	\$ 1,238,100
Investments at market	491,800	9,054,200	9,546,000	9,640,400
Per capita dues receivable	51,800	133,200	185,000	189,500
Accrued interest receivable	1,800	210,700	212,500	214,600
Loans to affiliated organizations (Note 4)	21,400	—	21,400	27,300
Accounts receivable (less allowance for doubtful accounts of \$2,300 and \$2,500)	67,900	—	67,900	68,900
Prepaid expenses	74,900	—	74,900	71,500
Total current assets	<u>1,360,400</u>	<u>11,108,100</u>	<u>12,468,500</u>	<u>11,450,300</u>
Property, furniture, and equipment at cost (Note 1)				
Land	678,400	—	678,400	678,400
Buildings (net of accumulated depreciation of \$743,500 and \$675,600)	1,973,400	—	1,973,400	1,515,500
Furniture and equipment (net of accumulated depreciation of \$314,800 and \$278,200)	50,800	—	50,800	87,400
Total property, furniture, and equipment	<u>2,702,600</u>	<u>—</u>	<u>2,702,600</u>	<u>2,281,300</u>
Total assets	<u><u>\$4,063,000</u></u>	<u><u>\$11,108,100</u></u>	<u><u>\$15,171,100</u></u>	<u><u>\$13,731,600</u></u>
<b>Liabilities and Fund Balances</b>				
Current liabilities				
Accounts payable	\$ 337,600	—	\$ 337,600	\$ 423,100
Notes payable	13,100	—	13,100	19,600
Affiliation dues payable	48,800	—	48,800	49,600
Accrued salaries	31,500	—	31,500	33,000
Payroll taxes and employee deductions payable	89,300	—	89,300	90,400
Total current liabilities	<u>520,300</u>	<u>—</u>	<u>520,300</u>	<u>615,700</u>
Fund balances	<u>3,542,700</u>	<u>\$11,108,100</u>	<u>14,650,800</u>	<u>13,115,900</u>
Total liabilities and fund balances	<u><u>\$4,063,000</u></u>	<u><u>\$11,108,100</u></u>	<u><u>\$15,171,100</u></u>	<u><u>\$13,731,600</u></u>

**EXHIBIT 2B**

**Sample Union**  
**Statement of Revenue, Expense, and Changes in Fund Balances**

**Year Ended December 31, 19X1**  
**(With Comparative Totals for 19X0)**

	General Fund (Undesignated)	Strike Insurance Fund (Designated)	December 31, 19X1 Total	December 31, 19X0 Total
<b>Revenue</b>				
Per capita dues (Note 2)	\$9,385,500	\$ 3,532,300	\$12,917,800	\$13,219,800
Initiation fees	24,100	—	24,100	22,800
Sales of organizational supplies	26,700	—	26,700	17,900
Rental income	216,300	—	216,300	216,100
Administrative fees—apprentice training	11,800	—	11,800	12,100
Interest income	28,100	609,000	637,100	644,100
<b>Total revenue</b>	<u>9,692,500</u>	<u>4,141,300</u>	<u>13,833,800</u>	<u>14,132,800</u>
<b>Expense (Note 6)</b>				
Program services				
Strike assistance to local unions	877,900	2,630,500	3,508,400	3,345,600
Constitutional convention	154,600	—	154,600	132,800
Field office services				
Organization	2,054,000	—	2,054,000	2,106,500
Negotiation	2,156,700	—	2,156,700	2,212,000
Grievance	924,300	—	924,300	947,900
<b>Total program services</b>	<u>6,167,500</u>	<u>2,630,500</u>	<u>8,798,000</u>	<u>8,744,800</u>
Administrative and general	3,537,700	57,600	3,595,300	1,425,200
Net (gains) losses on investments	(94,400)	—	(94,400)	2,062,800
<b>Total expense</b>	<u>9,610,800</u>	<u>2,688,100</u>	<u>12,298,900</u>	<u>12,232,800</u>
Excess of revenue over expense	81,700	1,453,200	1,534,900	1,900,000
Fund balances, beginning of year	3,461,000	9,654,900	13,115,900	11,215,900
Fund balances, end of year	<u>\$3,542,700</u>	<u>\$11,108,100</u>	<u>\$14,650,800</u>	<u>\$13,115,900</u>

## EXHIBIT 2C

### Sample Union Statement of Cash Flows \*

**Year Ended December 31, 19X1**

	General Fund (Undesignated)	Strike Insurance Fund (Designated)	Total All Funds	December 31, 19X0 Total
Cash flows from operating activities				
Per capita dues, fees, and sales	\$ 9,450,800	\$ 3,535,500	\$ 12,986,300	\$ 13,276,200
Rental income	216,300	—	216,300	216,100
Interest income	28,100	610,700	638,800	644,100
Cash paid to suppliers and employees	(9,597,000)	(57,600)	(9,654,600)	(8,821,200)
Strike assistance to local unions	—	(2,630,500)	(2,630,500)	(3,345,600)
Interest paid	(1,600)	—	(1,600)	(2,200)
Net cash flow from operating activities	<u>96,600</u>	<u>1,458,100</u>	<u>1,554,700</u>	<u>1,967,400</u>
Cash flows from financing activities				
Repayment of debt	(6,500)	—	(6,500)	(6,500)
Net cash flow from financing activities	<u>(6,500)</u>	<u>—</u>	<u>(6,500)</u>	<u>(6,500)</u>
Cash flows from investing activities				
Purchase of property, furniture and equipment	(525,800)	—	(525,800)	(352,000)
Principal collected on loans to affiliated organizations	5,900	—	5,900	2,600
Investments				
Purchases	(103,000)	(110,000)	(213,000)	(1,925,200)
Proceeds from sale	118,900	188,500	307,400	500,000
Net cash flow from investing activities	<u>(504,000)</u>	<u>78,500</u>	<u>(425,500)</u>	<u>(1,774,600)</u>
Increase (decrease) in cash	<u>(413,900)</u>	1,536,600	1,122,700	186,300
Cash				
Beginning of year	<u>1,064,700</u>	<u>173,400</u>	<u>1,238,100</u>	<u>1,051,800</u>
End of year	<u>\$ 650,800</u>	<u>\$ 1,710,000</u>	<u>\$ 2,360,800</u>	<u>\$ 1,238,100</u>

\*See footnote on page 1.



## **EXHIBIT 2D**

### **Sample Union Notes to Financial Statements**

**December 31, 19X1, and 19X0**

#### **Note 1—Summary of Significant Accounting Policies**

The financial statements of Sample Union have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

##### *Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of resources available to the Union, the accounts of the Union are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the Union are reported in two self-balancing fund groups as follows:

- General funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of operations.
- Strike funds represent resources restricted for benefits to the membership in the event of a strike.

##### *Plant Assets and Depreciation*

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

##### *Other Matters*

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets.

#### **Note 2—Strike Insurance Fund**

In accordance with the provisions of the Union Constitution, 27 percent of the per capita dues paid to the Union are designated for the Strike Insurance Fund. The fund may be distributed for strike relief at the discretion of the Union Executive Board. No charges may be made against the fund for administrative expenses.

#### **Note 3—Pledged Assets and Contingent Liabilities**

The Union is contingently liable as guarantor of a loan of \$15,000 to an affiliated local. In connection with the guarantee, a savings account, having a balance of \$20,000, is pledged as collateral for the loan.

#### **Note 4—Loans to Affiliated Organizations**

The loans to affiliated organizations represent short-term loans to local unions at current interest rates. All such loans are expected to be collected within one year.

## Note 5—Investments

Investments are presented in the financial statements in the aggregate at fair market value.

	December 31,	
	19X1	19X0
General fund	\$ 491,800	\$ 496,000
Strike fund	9,054,200	9,144,400
	<u>\$9,546,000</u>	<u>\$9,640,400</u>

Investments are composed of the following:

U.S. government obligations	\$6,683,000	\$6,748,000
Municipal bonds	2,863,000	2,892,000
	<u>\$9,546,000</u>	<u>\$9,640,000</u>

The average annual yield exclusive of net gains (losses) was 7 percent and the annual total return based on market value was 9 percent for the year ended December 31, 19X1.

## Note 6—Pension Plan

Effective January 1, 19X0 Sample Union adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended June 30, 19X1 was a reduction of \$XX,XXX.

A summary of the components of income follows:

	December 31,	
	19X1	19X0
Service cost—benefits earned during the year	\$ XX,XXX	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX	XX,XXX
Actual return on plan assets	(XX,XXX)	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)	(XX,XXX)
Amortization of unrecognized net asset	(XX,XXX)	(XX,XXX)
Net periodic pension income	<u>\$ (XX,XXX)</u>	<u>\$ (XX,XXX)</u>

Funded status of the plan:

Actuarial present value of benefit obligation		
Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1 and \$XX,XXX in 19X0	\$ (XX,XXX)	\$ (XX,XXX)
Projected benefit obligation for service rendered to date	(XX,XXX)	(XX,XXX)
Assets available for benefits		
Plan assets at fair value, primarily listed stocks and U.S. government securities	XXX,XXX	XXX,XXX
Plan assets in excess of benefit obligation	XX,XXX	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX	XXX
Unrecognized net assets at July 1, 19X0 being recognized over XX years	(XX,XXX)	(XX,XXX)
Prepaid pension cost included in other assets	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1 and 19X0, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the Union recognized gains of \$X,XXX and \$X,XXX in 19X1 and 19X0, respectively.

**Note 7—Postretirement Health Care and Life Insurance Benefits**

Sample Union offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees. Sample Union shares the cost of providing these benefits with all affected retirees. Sample Union's cost of providing such benefits is recognized by expensing the insurance programs' premiums as paid. The aggregate amount so expensed totalled \$XX,XXX and \$XX,XXX for the years ended December 31, 19X1 and 19X0, respectively. Sample Union has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.

**Note 8—Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of revenue, expenses, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## EXHIBIT 3—MUSEUM

### EXHIBIT 3A

#### Sample Museum Balance Sheet

**June 30, 19X1**  
**(With Comparative Totals for 19X0)**

	Operating Fund	Plant Fund	Endowment Fund	Total	June 30, 19X0 Total
<b>Assets</b>					
Current assets					
Cash	\$ 19,800	—	—	\$ 19,800	\$ 23,700
Receivables, less allowance of \$7,700	145,500	—	—	145,500	125,800
Investments (Note 2)	210,000	—	—	210,000	—
Inventories, at lower of cost (FIFO) or market	121,100	—	—	121,100	120,600
Prepayments	26,600	—	—	26,600	12,700
Total current assets	523,000	—	—	523,000	282,800
Fixed assets, net of depreciation (Note 3)	—	\$1,964,000	—	1,964,000	1,866,800
Art collection (Note 11)	—	—	\$ 6,000	6,000	3,800
Cash held for investment	4,044,500	—	7,688,400	11,732,900	11,709,300
Investments (Note 2)	4,044,500	—	7,688,400	11,732,900	11,709,300
Total	<u>\$4,567,500</u>	<u>\$1,964,000</u>	<u>\$7,694,400</u>	<u>\$14,225,900</u>	<u>\$13,862,700</u>
<b>Liabilities and Fund Balances</b>					
Current liabilities					
Accounts payable and accrued expenses	\$ 256,900	—	—	\$ 256,900	\$ 252,900
Deferred revenue and restricted gifts, current portion (Note 5)	242,100	—	—	242,100	208,100
Total current liabilities	499,000	—	—	499,000	461,000
Deferred revenue and restricted gifts, noncurrent portion (Note 5)	409,900	—	—	409,900	167,300
Fund balances					
Endowment	—	—	\$7,694,400	7,694,400	7,621,800
Land, buildings, and equipment	—	\$1,964,000	—	1,964,000	1,866,800
Unrestricted					
Designated for investment	3,490,000	—	—	3,490,000	3,490,000
Designated for plant expansion	150,000	—	—	150,000	—
Unappropriated	18,600	—	—	18,600	255,800
Total fund balances	3,658,600	1,964,000	7,694,400	13,317,000	13,234,400
Total	<u>\$4,567,500</u>	<u>\$1,964,000</u>	<u>\$7,694,400</u>	<u>\$14,225,900</u>	<u>\$13,862,700</u>

# EXHIBIT 3B

## Sample Museum Statement of Activity

Year Ended June 30, 19X1  
(With Comparative Totals for 19X0)

	Operating Fund	Plant Fund	Endowment Fund	Total	Year Ended June 30, 19X0 Total
Support and revenue					
Admissions	\$ 131,100	—	—	\$ 131,100	\$ 123,400
Government appropriations	110,700	—	—	110,700	104,000
Gifts and grants (Notes 5 and 8)	130,000	—	—	130,000	124,700
Memberships	48,400	—	—	48,400	39,900
Investment income	828,800	—	—	828,800	841,700
Net realized investment gains (losses)	6,300	—	—	6,300	(2,600)
Revenue, auxiliary activities	483,100	—	—	483,100	417,200
Total	<u>1,738,400</u>	<u>—</u>	<u>—</u>	<u>1,738,400</u>	<u>1,648,300</u>
Expenses					
Program					
Curatorial and conservation	578,600	\$ 27,400	—	606,000	602,000
Exhibits	108,600	—	—	108,600	109,100
Education	133,400	4,800	—	138,200	131,600
Fellowships	68,200	—	—	68,200	52,800
Public information	66,400	2,700	—	69,100	67,700
Accession of art for collection, net of deaccessions (Note 11)	200,000	—	—	200,000	170,000
Supporting services					
Management and general	67,400	10,800	—	78,200	77,300
Fund raising	10,300	—	—	10,300	9,600
Cost of sales and expense of auxiliary activities	441,100	8,700	—	449,800	384,600
Total	<u>1,674,000</u>	<u>54,400</u>	<u>—</u>	<u>1,728,400</u>	<u>1,604,700</u>
Excess (deficiency) of support and revenue over expenses before capital additions	<u>64,400</u>	<u>(54,400)</u>	<u>—</u>	<u>10,000</u>	<u>43,600</u>
Capital additions					
Gifts and grants (Note 8)	—	—	\$ 76,400	76,400	18,200
Net investment income	—	—	4,700	4,700	1,800
Net realized investment gains (losses)	—	—	(8,500)	(8,500)	(2,000)
Total	<u>—</u>	<u>—</u>	<u>72,600</u>	<u>72,600</u>	<u>18,000</u>
Excess (deficiency) of support and revenue over expenses after capital additions	<u>64,400</u>	<u>(54,400)</u>	<u>72,600</u>	<u>82,600</u>	<u>61,600</u>
Fund balances, beginning of period	3,745,800	1,866,800	7,621,800	13,234,400	13,172,800
Add (deduct) transfers (Note 9)	(151,600)	151,600	—	—	—
Fund balances, end of period	<u>\$3,658,600</u>	<u>\$1,964,000</u>	<u>\$7,694,400</u>	<u>\$13,317,000</u>	<u>\$13,234,400</u>

# EXHIBIT 3C

## Sample Museum Statement of Cash Flows\*

Year Ended June 30, 19X1

	Operating Fund	Plant Fund	Endowment Funds	Total All Funds
Cash flows from operating activities				
Admissions, memberships and other	\$1,160,200	—	—	\$1,160,200
Investment income	828,800	—	—	828,800
Cash paid to suppliers and employees	<u>(1,684,400)</u>	<u>—</u>	<u>—</u>	<u>(1,684,400)</u>
Net cash flow from operating activities	<u>304,600</u>	<u>—</u>	<u>—</u>	<u>304,600</u>
Capital cash flows				
Gifts and grants	—	—	\$ 76,400	76,400
Investment income	<u>—</u>	<u>—</u>	<u>4,700</u>	<u>4,700</u>
Net capital cash flows	<u>—</u>	<u>—</u>	<u>81,100</u>	<u>81,100</u>
Cash flows from investing activities				
Fixed assets				
Purchases	—	(151,600)	—	(151,600)
Proceeds from sales	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Investments				
Purchases	(792,000)	—	(396,000)	(1,188,000)
Proceeds	<u>635,100</u>	<u>—</u>	<u>317,100</u>	<u>952,000</u>
Net cash flow from investing activities	<u>(156,900)</u>	<u>(151,600)</u>	<u>(78,900)</u>	<u>(387,400)</u>
Increase (decrease) in cash	147,700	(151,600)	2,200	(1,700)
Transfers				
Equipment acquisitions and principal debt service payments	<u>(151,600)</u>	<u>151,600</u>	<u>—</u>	<u>—</u>
Net increase(decrease) in cash	(3,900)	—	2,200	(1,700)
Cash				
Beginning of year	<u>23,700</u>	<u>—</u>	<u>3,800</u>	<u>27,500</u>
End of year	<u>\$ 19,800</u>	<u>\$ —</u>	<u>\$ 6,000</u>	<u>\$ 25,800</u>

\*See footnote on page 1.

## EXHIBIT 3D

### Sample Museum Notes to Financial Statements

June 30, 19X1

#### Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Museum have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

##### *Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of resources available to the museum, the accounts of the museum are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the museum are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of school operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

##### *Expendable Restricted Resources*

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the museum has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

##### *Plant Assets and Depreciation*

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

##### *Other Matters*

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

**Note 2—Investments**

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

	June 30,			
	19X1		19X0	
	Cost	Market	Cost	Market
Operating funds	\$4,254,500	\$4,679,950	\$4,171,280	\$4,590,730
Endowment funds	7,688,400	8,452,400	7,538,020	8,296,020
	<u>\$11,942,900</u>	<u>\$13,132,350</u>	<u>\$11,709,300</u>	<u>\$12,886,750</u>

Investments are composed of the following:

Corporate stocks and bonds	\$7,165,740	\$7,879,410	\$7,025,580	\$7,732,050
U.S. government obligations	3,582,870	3,939,705	3,512,790	3,866,025
Municipal bonds	1,194,290	1,313,235	1,170,930	1,288,675
	<u>\$11,942,900</u>	<u>\$13,132,350</u>	<u>\$11,709,300</u>	<u>\$12,886,750</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

	Carrying Value	Market Value	Excess of Market Over Cost
Balance at end of year	<u>\$11,942,900</u>	<u>\$13,132,350</u>	\$1,189,450
Balance at beginning of year	<u>\$11,709,300</u>	<u>\$12,886,750</u>	1,177,450
Increase in unrealized appreciation			12,000
Realized net loss for year			(2,200)
Total net gain for year			<u>\$ 9,800</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X1.

**Note 3—Plant Assets and Depreciation**

A summary of plant assets follows:

	June 30,	
	19X1	19X0
Land	\$ 981,900	\$ 981,900
Buildings	1,636,500	1,636,500
Equipment	654,600	503,000
	<u>3,273,000</u>	<u>3,121,400</u>
Less accumulated depreciation	<u>1,309,000</u>	<u>1,254,600</u>
	<u>\$1,964,000</u>	<u>\$1,866,800</u>



**Note 4—Pension Plan**

Effective July 1, 19X0 Sample Museum adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions.

Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended June 30, 19X1 was a reduction of \$XX,XXX.

A summary of the components of income follows:

	June 30,	
	19X1	19X0
Service cost—benefits earned during the year	\$ XX,XXX	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX	XX,XXX
Actual return on plan assets	(XX,XXX)	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)	(XX,XXX)
Amortization of unrecognized net assets	(XX,XXX)	(XX,XXX)
Net periodic pension income	<u>\$ (XX,XXX)</u>	<u>\$ (XX,XXX)</u>
Funded status of the plan:		
Actuarial present value of benefit obligation		
Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1 and \$XX,XXX in 19X0	<u>\$ (XX,XXX)</u>	<u>\$ (XX,XXX)</u>
Projected benefit obligation for service rendered to date	(XX,XXX)	(XX,XXX)
Assets available for benefits		
Plan assets at fair value, primarily listed stocks and U.S. government securities	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Plan assets in excess of benefit obligation	XX,XXX	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX	XXX
Unrecognized net assets at July 1, 19X0 being recognized over XX years	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
Prepaid pension cost included in other assets	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1 and 19X0, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, Sample Museum recognized gains of \$X,XXX and \$X,XXX in 19X1 and 19X0, respectively.

**Note 5—Changes in Deferred Restricted Amounts**

	Operating Funds	
	Current	Noncurrent
Balances at beginning of year	\$ 208,100	\$167,300
Additions		
Contributions and bequests	872,900	242,600
Investment income	828,800	
Net gain on investment transactions	6,300	
	1,916,100	409,900
Deductions—funds expended during the year	1,674,000	—
Balances at end of year	\$ 242,100	\$409,900

**Note 6—Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 7—Commitments**

The museum has entered into various agreements aggregating approximately \$80,000 for the purchase of equipment to be received subsequent to June 30, 19X1.

**Note 8—Gifts Received**

During the year ended June 30, 19X1, Sample Museum received several endowments totaling \$76,400. The donative instruments stipulate that the principal is to be maintained inviolate and in perpetuity and only the income from the investments of the fund may be expended.

**Note 9—Interfund Transfers**

During the year ended June 30, 19X1, the trustees authorized a transfer from the Operating Fund to the Plant Fund in the amount of \$151,600 representing fixed assets purchased with resources of the Operating Fund.

**Note 10—Contributed Services**

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Museum's programs, principally in membership development and educational programs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

**Note 11—Art Collection**

In conformity with the practice followed by many museums, art objects purchased and donated are not included in the balance sheet.

The value of the objects acquired by gift for which the Museum can make a reasonable estimate is reported as gifts in the Statement of Activity (\$28,000 in the year ended June 30, 19X1).

The cost of all objects purchased together with the value of objects acquired by gift as indicated in the preceding paragraph, less the proceeds from deaccessions of objects, is reported as a separate program expense. During the year ended June 30, 19X1, purchase of art objects amounted to \$185,000 and the proceeds from deaccessions was \$13,000.

Gifts of cash or other property restricted by donors for the purchase of items for the collection are classified as deferred revenue until acquisitions are made in accordance with the terms of the gifts.

## EXHIBIT 4—PRIVATE FOUNDATION

### EXHIBIT 4A

#### Sample Private Foundation Balance Sheet

December 31, 19X1, and 19X0

	<u>19X1</u>	<u>19X0</u>
<b>Assets</b>		
Cash	\$ 75,000	\$ 50,000
Accrued interest and dividends receivable	<u>175,000</u>	<u>225,000</u>
Securities, at market (cost, 19X1—\$17,800,000; 19X0—\$17,400,000) (Note 2)		
U.S. government obligations	2,000,000	1,750,000
Corporate and other obligations	5,000,000	7,000,000
Stocks	<u>12,000,000</u>	<u>10,000,000</u>
	<u>19,000,000</u>	<u>18,750,000</u>
Total assets	<u>\$19,250,000</u>	<u>\$19,025,000</u>
<b>Liabilities and Fund Balance</b>		
Federal excise taxes payable (Note 3)	\$ 41,000	\$ 39,000
Accrued expenses payable	9,000	11,000
Deferred taxes	10,000	5,000
Unconditional grants payable	<u>40,000</u>	<u>75,000</u>
Total liabilities	<u>100,000</u>	<u>130,000</u>
Commitments (Note 4)		
Fund balance	<u>19,150,000</u>	<u>18,895,000</u>
Total liabilities and fund balance	<u>\$19,250,000</u>	<u>\$19,025,000</u>

**EXHIBIT 4B****Sample Private Foundation  
Statement of Revenue, Expense, and Changes in Fund Balances****Years Ended December 31, 19X1, and 19X0**

	<u>19X1</u>	<u>19X0</u>
Revenue and support		
Dividends	\$ 525,000	\$ 500,000
Interest	500,000	585,000
Unrestricted donations	100,000	—
Total revenue and support	<u>1,125,000</u>	<u>1,085,000</u>
Expense		
Program services		
Program grants		
Health	530,000	525,000
Education	390,000	375,000
Program management	82,500	80,000
Management and general expenses	1,002,500	980,000
Provision for federal excise taxes	40,000	38,000
	<u>112,500</u>	<u>108,000</u>
Total expense	<u>1,115,000</u>	<u>1,088,000</u>
Excess (deficiency) of revenue and support over expense before gains (losses) on securities	10,000	(3,000)
Net gains (losses) on securities	<u>245,000</u>	<u>(172,000)</u>
Excess (deficiency) for the year	255,000	(175,000)
Fund balance, beginning of year	18,895,000	19,070,000
Fund balance, end of year	<u>\$19,150,000</u>	<u>\$18,895,000</u>

**EXHIBIT 4C****Sample Private Foundation  
Statement of Cash Flows\*****Years Ended December 31, 19X1, and 19X0**

	<u>19X1</u>	<u>19X0</u>
Cash flows from operating activities		
Unrestricted donations	\$ 100,000	\$ —
Investment income	1,075,000	1,125,000
Grants paid	(955,000)	(920,000)
Cash paid to suppliers and employees	(152,000)	(169,000)
Taxes paid	<u>(38,000)</u>	<u>(39,000)</u>
Net cash flow from operating activities	<u>30,000</u>	<u>3,000</u>
Cash flows from investing activities		
Investments		
Purchases	(5,110,000)	(4,007,000)
Proceeds	<u>5,105,000</u>	<u>4,000,000</u>
Net cash flow from investing activities	<u>(5,000)</u>	<u>(7,000)</u>
Net increase (decrease) in cash	25,000	(10,000)
Cash		
Beginning of year	<u>50,000</u>	<u>60,000</u>
End of year	<u>\$ 75,000</u>	<u>\$ 50,000</u>

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\*See footnote on page 1.

## EXHIBIT 4D

### Sample Private Foundation Notes to Financial Statements

December 31, 19X1, and 19X0

#### Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Private Foundation have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

##### *Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of resources available to the foundation, the accounts of the foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined.

##### *Expendable Restricted Resources*

Funds restricted by the donor, grantor, or other outside party for particular purposes are deemed to be earned and reported as revenues when the foundation has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

##### *Office Furnishings*

Costs of office furnishings and equipment are consistently charged to expense because the foundation does not deem such amounts to be sufficiently material to warrant capitalization and depreciation.

#### Note 2—Investments

Investments are presented in the financial statements at fair market value.

Investments are composed of the following:

	December 31,			
	19X1		19X0	
	Cost	Market	Cost	Market
Stocks	\$11,240,000	\$12,000,000	\$ 9,280,000	\$10,000,000
U.S. government obligations	1,870,000	2,000,000	1,620,000	1,750,000
Corporate and municipal bonds	4,690,000	5,000,000	6,500,000	7,000,000
	<u>\$17,800,000</u>	<u>\$19,000,000</u>	<u>\$17,400,000</u>	<u>\$18,750,000</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X1.

**Note 3—Federal Excise Taxes**

In accordance with the applicable provisions of the Tax Reform Act of 1969, the foundation is subject to an excise tax on net investment income, including realized gains, as defined in the act. Accordingly, federal excise taxes have been accrued in amounts of \$41,000 and \$39,000 as of December 31, 19X1, and 19X0, respectively.

In addition, the Tax Reform Act requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 19X1, the foundation has distributed approximately \$200,000 more than the required minimum.

**Note 4—Commitments**

Trustees of the foundation had approved, as of December 31, 19X1, and 19X0, grants amounting to \$750,000 and \$700,000, respectively. Such grants are subject to the satisfaction by the intended recipients of prior conditions before payment. The commitments outstanding at December 31, 19X1, are scheduled for payment as follows:

<u>Year</u>	<u>Amount</u>
19X2	\$600,000
19X3	100,000
19X4	50,000
	<u>\$750,000</u>

**Note 5—Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of revenue, expenses, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

# EXHIBIT 5—RELIGIOUS ORGANIZATION

## EXHIBIT 5A

### Sample Religious Organization Balance Sheet

December 31, 19X1

	Expendable Funds			Plant Fund	Nonexpendable Funds		Total All Funds
	Operating	Deposit and Loan	Total		Endowment	Annuity and Life Income	
Cash	\$1,750,000	\$ 10,000	\$ 1,760,000	\$ 408,000	\$ 20,000	\$ 2,000	\$ 2,190,000
Accounts receivable, less allowance for doubtful receivables of \$12,000	520,000	—	520,000	—	—	—	520,000
Pledges receivable, less allowance for doubtful pledges of \$25,000	500,000	—	500,000	80,000	—	—	580,000
Investments (Note 2)	3,800,000	300,000	4,100,000	260,000	1,300,000	178,000	5,838,000
Loans receivable, less allowance for doubtful loans of \$350,000	—	2,600,000	2,600,000	—	—	—	2,600,000
Advances to plant funds	—	3,500,000	3,500,000	—	—	—	— *
Land, buildings, and equipment at cost, less accumulated depreciation of \$23,500,000 (Note 3)	—	—	—	44,800,000	—	—	44,800,000
Other assets	150,000	—	150,000	—	—	—	150,000
Total assets	<u>\$6,720,000</u>	<u>\$6,410,000</u>	<u>\$13,130,000</u>	<u>\$45,548,000</u>	<u>\$1,320,000</u>	<u>\$180,000</u>	<u>\$56,678,000</u>
<b>Liabilities and Fund Balances</b>							
Accounts payable and accrued expenses	\$ 600,000	—	\$ 600,000	\$ 20,000	—	\$120,000	\$ 740,000
Deferred amounts (Note 6)							
Unrestricted	160,000	—	160,000	—	—	—	160,000
Restricted	870,000	—	870,000	328,000	—	60,000	1,258,000
Advances from expendable funds	—	—	—	3,500,000	—	—	— *
Deposits payable	—	\$7,310,000	7,310,000	—	—	—	7,310,000
Long-term debt (Note 4)	—	—	—	2,800,000	—	—	2,800,000
Total liabilities	<u>1,630,000</u>	<u>7,310,000</u>	<u>8,940,000</u>	<u>6,648,000</u>	<u>—</u>	<u>180,000</u>	<u>12,268,000</u>
Fund balances (deficit)							
Unrestricted							
Designated for long-term investment	3,800,000	—	3,800,000	—	—	—	3,800,000
Undesignated	1,290,000	(900,000)	390,000	—	—	—	390,000
	5,090,000	(900,000)	4,190,000	—	—	—	4,190,000
Restricted	—	—	—	—	\$1,320,000	—	1,320,000
Net investment in plant	—	—	—	38,900,000	—	—	38,900,000
Total fund balances (deficit)	<u>5,090,000</u>	<u>(900,000)</u>	<u>4,190,000</u>	<u>38,900,000</u>	<u>1,320,000</u>	<u>—</u>	<u>44,410,000</u>
Total liabilities and fund balances	<u>\$6,720,000</u>	<u>\$6,410,000</u>	<u>\$13,130,000</u>	<u>\$45,548,000</u>	<u>\$1,320,000</u>	<u>\$180,000</u>	<u>\$56,678,000</u>

\*Interfund borrowings eliminated in combination.



**EXHIBIT 5B**

**Sample Religious Organization  
Statement of Support and Revenue, Expenses,  
Capital Additions, and Changes in Fund Balances**

**Year Ended December 31, 19X1**

	Expendable Funds				Plant Fund	Nonexpendable Endowment Funds	Total All Funds
	Operating		Deposit and Loan	Total			
	Unrestricted	Restricted					
Support and revenue							
Contributions and bequests	\$ 6,800,000	\$180,000	—	\$ 6,980,000	—	—	\$ 6,980,000
Fees for services	4,000,000	—	—	4,000,000	—	—	4,000,000
Endowment and other investment income	200,000	40,000	—	240,000	—	—	240,000
Net gain on investment transactions	250,000	—	—	250,000	—	—	250,000
Contributed services	950,000	—	—	950,000	—	—	950,000
Auxiliary activities	205,000	—	\$535,000	740,000	—	—	740,000
Total support and revenue	12,405,000	220,000	535,000	13,160,000	—	—	13,160,000
Expenses							
Program services							
Pastoral	3,300,000	45,000	—	3,345,000	\$ 300,000	—	3,645,000
Education	4,000,000	80,000	—	4,080,000	460,000	—	4,540,000
Health care	2,800,000	25,000	—	2,825,000	250,000	—	3,075,000
Social services	900,000	50,000	—	950,000	85,000	—	1,035,000
Cemeteries	220,000	20,000	—	240,000	20,000	—	260,000
Religious personnel development	600,000	—	—	600,000	55,000	—	655,000
Auxiliary activities	160,000	—	685,000	845,000	5,000	—	850,000
Total program services	11,980,000	220,000	685,000	12,885,000	1,175,000	—	14,060,000
Supporting services							
General administration	180,000	—	—	180,000	15,000	—	195,000
Fund raising	120,000	—	—	120,000	10,000	—	130,000
Total supporting services	300,000	—	—	300,000	25,000	—	325,000
Total expenses	12,280,000	220,000	685,000	13,185,000	1,200,000	—	14,385,000
Excess (deficiency) of support and revenue over expenses before capital additions	125,000	—	(150,000)	(25,000)	(1,200,000)	—	(1,225,000)
Capital additions							
Contributions and bequests	—	—	—	—	310,000	\$ 200,000	510,000
Investment income	—	—	—	—	15,000	—	15,000
Net gain on investment transactions	—	—	—	—	—	80,000	80,000
Total capital additions	—	—	—	—	325,000	280,000	605,000
Excess (deficiency) of support and revenue over expenses after capital additions	125,000	—	(150,000)	(25,000)	(875,000)	280,000	(620,000)
Fund balances (deficit) at beginning of year	5,315,000	—	(750,000)	4,565,000	39,425,000	1,040,000	45,030,000
Transfers to plant funds for plant acquisitions and principal debt service payments financed from operating funds	(350,000)	—	—	(350,000)	350,000	—	—
Fund balances (deficit) at end of year	\$ 5,090,000	—	\$(900,000)	\$4,190,000	\$38,900,000	\$1,320,000	\$44,410,000

**EXHIBIT 5C**  
**Sample Religious Organization**  
**Statement of Cash Flows\***  
**Year Ended December 31, 19X1**

	Expendable Funds				Nonexpendable Funds		
	Operating	Deposit and Loan	Total	Plant Fund	Endowment	Annuity and Life Income	Total All Funds
Cash flows from operating activities							
Contributions, bequests and other	\$11,005,000	\$267,000	\$11,272,000	—	—	—	\$11,272,000
Endowment and investment income	200,000	—	200,000	—	—	—	200,000
Interest received	—	208,000	208,000	—	—	—	208,000
Cash paid to suppliers and employees	(10,838,000)	(256,000)	(11,094,000)	—	—	—	(11,094,000)
Interest paid	(312,000)	(439,000)	(751,000)	—	—	\$(12,000)	(763,000)
Net cash flow from operating activities	55,000	(220,000)	(165,000)	—	—	(12,000)	(177,000)
Capital cash flows							
Contributions, bequests and other	—	—	—	\$298,000	\$200,000	—	498,000
Investment income	—	—	—	15,000	—	—	15,000
Net capital cash flows	—	—	—	313,000	200,000	—	513,000
Cash flows from financing activities							
Issuance of long-term debt	—	—	—	400,000	—	—	400,000
Repayments of long-term debt	—	—	—	(320,000)	—	—	(320,000)
Net cash flow from financing activities	—	—	—	80,000	—	—	80,000
Cash flows from investing activities							
Land, buildings and equipment							
Purchases	—	—	—	(755,000)	—	—	(755,000)
Investments							
Purchases	(1,830,000)	(70,000)	(1,900,000)	—	(784,000)	(36,000)	(2,720,000)
Proceeds	1,800,000	210,000	2,010,000	332,000	590,000	49,000	2,981,000
Net cash flow from investing activities	(30,000)	140,000	110,000	(423,000)	(194,000)	13,000	(494,000)
Increase (decrease) in cash	25,000	(80,000)	(55,000)	(30,000)	6,000	1,000	(78,000)
Transfers							
Equipment acquisitions and principal debt service payments	(350,000)	—	(350,000)	350,000	—	—	—
Net increase (decrease) in cash	(325,000)	(80,000)	(405,000)	320,000	6,000	1,000	(78,000)
Cash							
Beginning of year	2,075,000	90,000	2,165,000	88,000	14,000	1,000	2,268,000
End of year	\$ 1,750,000	\$ 10,000	\$ 1,760,000	\$408,000	\$ 20,000	\$ 2,000	\$ 2,190,000

\*See footnote on page 1.

## EXHIBIT 5D

### Sample Religious Organization Notes to Financial Statements

December 31, 19X1

#### Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Religious Organization have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

##### *Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of resources available to the organization, the accounts of the organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the organization are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.
- Deposit and loan funds represent resources restricted for loans.
- Annuity and life income funds represent endowment resources of which the organization owns only the principal

##### *Basis of Presentation*

The accompanying financial statements include the assets, liabilities, fund balances, and financial activities of all institutions and organizations providing services at the level of administration above the individual congregation. All significant balances and transactions among the organizations included in the financial statements have been eliminated.

##### *Other Matters*

Support arising from contributed services of certain religious personnel has been recognized in the accompanying financial statements. The computation of the value of the contribution of those services represents the difference between the stipends and other amounts paid to or on behalf of the religious personnel and the comparable compensation that would be paid to lay persons if lay persons were to occupy those positions. No computation is made for positions that can be held only by religious personnel.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

### *Expendable Restricted Resources*

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the organization has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

### *Plant Assets and Depreciation*

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

### **Note 2—Investments**

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

	<u>Cost</u>	<u>Market</u>
Operating funds	\$3,800,000	\$4,180,000
Plant funds	260,000	286,000
Endowment funds	1,300,000	1,430,000
Deposit and loan funds	300,000	330,000
Annuity and life income funds	178,000	196,000
	<u>\$5,838,000</u>	<u>\$6,422,000</u>

Investments are composed of the following:

	<u>Cost</u>	<u>Market</u>
Corporate stocks and bonds	\$4,087,000	\$4,495,000
U.S. government obligations	1,168,000	1,284,000
Municipal bonds	583,000	643,000
	<u>\$5,838,000</u>	<u>\$6,422,000</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

	<u>Carrying Value</u>	<u>Market Value</u>	<u>Excess of Market Over Cost</u>
Balance at end of year	<u>\$5,838,000</u>	<u>\$6,422,000</u>	\$584,000
Balance at beginning of year	<u>\$5,769,000</u>	<u>\$6,341,000</u>	572,000
Increase in unrealized appreciation			12,000
Realized net gain for year			<u>357,000</u>
Total net gain for year			<u>\$369,000</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended December 31, 19X1.

**Note 3—Plant Assets and Depreciation**

A summary of plant assets follows:

Land	\$18,300,000
Buildings	41,000,000
Equipment	<u>9,100,000</u>
	68,300,000
Less accumulated depreciation	<u>23,500,000</u>
	<u><u>\$44,800,000</u></u>

**Note 4—Long-Term Debt**

A summary of long-term debt follows:

8½% mortgage payable in semiannual installments of \$160,000 through 19XX	<u><u>\$ 2,800,000</u></u>
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**Note 5—Pension Plan**

Effective January 1, 19X0 Sample Religious Organization adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended December 31, 19X1 was a reduction of \$XX,XXX.

A summary of the components of income follows:

Service cost—benefits earned during the year	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX
Actual return on plan assets	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)
Amortization of unrecognized net asset	<u>(XX,XXX)</u>
Net periodic pension income	<u><u>\$ (XX,XXX)</u></u>

Funded status of the plan:

Actuarial present value of benefit obligation	
Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1	<u>\$ (XX,XXX)</u>
Projected benefit obligation for service rendered to date	(XX,XXX)

Assets available for benefits

Plan assets at fair value, primarily listed stocks and U.S. government securities	<u>XXX,XXX</u>
Plan assets in excess of benefit obligation	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX
Unrecognized net assets at January 1, 19X0 being recognized over XX years	<u>(XX,XXX)</u>
Prepaid pension cost included in other assets	<u><u>\$ XX,XXX</u></u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1, \$X,XXX of the vested benefit portion of the projected benefit obligation was settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the organization recognized gains of \$X,XXX in 19X1.

**Note 6—Changes in Deferred Restricted Amounts**

	Operating Funds	Plant Fund	Annuity and Life Income Fund
Balances at beginning of year	\$ 690,000	\$ 325,000	\$58,000
Additions			
Contributions and bequests	400,000	1,188,000	2,000
Investment income	—	15,000	—
Net gain on investment transactions	—	—	—
	<u>1,090,000</u>	<u>1,528,000</u>	<u>60,000</u>
Deductions—funds expended during the year	<u>220,000</u>	<u>1,200,000</u>	<u>—</u>
Balances at end of year	<u><u>\$ 870,000</u></u>	<u><u>\$ 328,000</u></u>	<u><u>\$60,000</u></u>

**Note 7—Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 8—Commitment**

The organization has a lease for certain office facilities that expires December 31, 19X9. The lease contains operating expense and real estate tax escalation clauses. The minimum rental commitment on the lease as of December 31, 19X1, aggregates approximately \$210,000 with annual payments ranging from \$25,000 to \$35,000. Rent expense for the year ended December 31, 19X1, amounted to \$28,000.

## **Illustrative Auditors' Report—Voluntary Health and Welfare Service**

We have audited the accompanying balance sheet of Sample Voluntary Health and Welfare Service as of December 31, 19X1, and the related statements of support, revenues, expenses, and changes in fund balances and of functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Service's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Voluntary Health and Welfare Service as of December 31, 19X1 and the results of its operations, changes in fund balances, functional expenses and cash flows for the year then ended in conformity with generally accepted accounting principles.

# EXHIBIT 6—VOLUNTARY HEALTH AND WELFARE SERVICE

## EXHIBIT 6A

### Sample Voluntary Health and Welfare Service Balance Sheets

December 31, 19X2 and 19X1

	Current Funds, Unrestricted	
	19X2	19X1
<b>Assets</b>		
Cash	\$2,207,000	\$2,530,000
Investments (Note 2)		
For long-term purposes	2,727,000	2,245,000
Other	1,075,000	950,000
Pledges receivable less allowance for uncollectibles of \$105,000 and \$92,000	475,000	363,000
Inventories of educational materials, at cost	70,000	61,000
Accrued interest, other receivables and prepaid expenses	286,000	186,000
Total	<u>\$6,840,000</u>	<u>\$6,335,000</u>
<b>Liabilities and Fund Balances</b>		
Accounts payable	\$ 148,000	\$ 139,000
Research grants payable	596,000	616,000
Contributions designated for future periods	245,000	219,000
Total liabilities and deferred revenues	<u>989,000</u>	<u>974,000</u>
Fund balances		
Designated by the governing board for		
Long-term investments	2,800,000	2,300,000
Purchases of new equipment	100,000	—
Research purposes (Note 3)	1,152,000	1,748,000
Undesignated, available for general activities (Note 4)	1,799,000	1,313,000
Total fund balance	<u>5,851,000</u>	<u>5,361,000</u>
Total	<u>\$6,840,000</u>	<u>\$6,335,000</u>
<b>Assets</b>		
	Restricted	
Cash	\$ 3,000	\$ 5,000
Investments (Note 2)	71,000	72,000
Grants receivable	58,000	46,000
Total	<u>\$ 132,000</u>	<u>\$ 123,000</u>
<b>Liabilities and Fund Balances</b>		
Fund balances		
Professional education	\$ 84,000	\$ —
Research grants	48,000	123,000
Total	<u>\$ 132,000</u>	<u>\$ 123,000</u>

(continued)



**EXHIBIT 6—VOLUNTARY HEALTH AND WELFARE SERVICE****EXHIBIT 6A (continued)****Sample Voluntary Health and Welfare Service  
Balance Sheets****December 31, 19X2 and 19X1**

<b>Assets</b>	<u>Land, Building and Equipment Fund</u>	
Cash	\$ 3,000	\$ 2,000
Investments (Note 2)	177,000	145,000
Pledges receivable less allowance for uncollectibles of \$7,500 and \$5,000	32,000	25,000
Land, buildings and equipment, at cost less accumulated depreciation of \$296,000 and \$262,000 (Note 5)	516,000	513,000
Total	<u>\$ 728,000</u>	<u>\$ 685,000</u>

**Liabilities and Fund Balances**

Mortgage payable, 8% due 19XX	<u>\$ 32,000</u>	<u>\$ 36,000</u>
Fund balances:		
Expended	484,000	477,000
Unexpended—restricted	212,000	172,000
Total fund balance	696,000	649,000
Total	<u>\$ 728,000</u>	<u>\$ 685,000</u>

<b>Assets</b>	<u>Endowment Funds</u>	
Cash	\$ 4,000	\$ 10,000
Investments (Note 2)	1,944,000	2,007,000
Total	<u>\$1,948,000</u>	<u>\$2,017,000</u>

**Liabilities and Fund Balance**

Fund balance	<u>\$1,948,000</u>	<u>\$2,017,000</u>
Total	<u>\$1,948,000</u>	<u>\$2,017,000</u>

(See accompanying notes to financial statements)

**EXHIBIT 6B**

**Sample Voluntary Health and Welfare Service  
Statement of Support, Revenue, and Expenses  
and Changes in Fund Balances**

**Year Ended December 31, 19X2 with Comparative Totals for 19X1**

	19X2				Total All Funds	
	Current Funds		Land, Building and Equipment Fund	Endowment Fund		
	Unrestricted	Restricted			19X2	19X1
Public support and revenue						
Public support						
Contributions (net of estimated uncollectible pledges of \$195,000 in 19X2 and \$150,000 in 19X1)	\$3,764,000	\$162,000	\$ —	\$ 2,000	\$3,928,000	\$3,976,000
Contributions to building fund	—	—	72,000	—	72,000	150,000
Special events (net of direct costs of \$181,000 in 19X2 and \$163,000 in 19X1)	104,000	—	—	—	104,000	92,000
Legacies and bequests	92,000	—	—	4,000	96,000	129,000
Received from federated and nonfederated campaigns (which incurred related fund-raising expenses of \$38,000 in 19X2 and \$29,000 in 19X1)	275,000	—	—	—	275,000	308,000
Total public support	<u>4,235,000</u>	<u>162,000</u>	<u>72,000</u>	<u>6,000</u>	<u>4,475,000</u>	<u>4,655,000</u>
Revenue						
Membership dues	17,000	—	—	—	17,000	12,000
Investment income	98,000	10,000	—	—	108,000	94,000
Realized gain on investment transactions	200,000	—	—	25,000	225,000	275,000
Miscellaneous	42,000	—	—	—	42,000	47,000
Total revenue	<u>357,000</u>	<u>10,000</u>	<u>—</u>	<u>25,000</u>	<u>392,000</u>	<u>428,000</u>
Total support and revenue	<u>4,592,000</u>	<u>172,000</u>	<u>72,000</u>	<u>31,000</u>	<u>\$4,867,000</u>	<u>\$5,083,000</u>
Expenses						
Program services						
Research	1,257,000	155,000	2,000	—	\$1,414,000	\$1,365,000
Public health education	539,000	—	5,000	—	544,000	485,000
Professional education and training	612,000	—	6,000	—	618,000	516,000
Community services	568,000	—	10,000	—	578,000	486,000
Total program services	<u>2,976,000</u>	<u>155,000</u>	<u>23,000</u>	<u>—</u>	<u>3,154,000</u>	<u>2,852,000</u>
Supporting services						
Management and general	567,000	—	7,000	—	574,000	638,000
Fund raising	642,000	—	12,000	—	654,000	546,000
Total supporting services	<u>1,209,000</u>	<u>—</u>	<u>19,000</u>	<u>—</u>	<u>1,228,000</u>	<u>1,184,000</u>
Total expenses	<u>4,185,000</u>	<u>155,000</u>	<u>42,000</u>	<u>—</u>	<u>\$4,382,000</u>	<u>\$4,036,000</u>
Excess (deficiency) of public support and revenue over expenses	407,000	17,000	30,000	31,000		
Other changes in fund balances						
Property and equipment acquisitions from unrestricted funds	(17,000)	—	17,000	—		
Transfer of realized endowment fund appreciation	100,000	—	—	(100,000)		
Returned to donor	—	(8,000)	—	—		
Fund balances, beginning of year	5,361,000	123,000	649,000	2,017,000		
Fund balances, end of year	<u>\$5,851,000</u>	<u>\$132,000</u>	<u>\$696,000</u>	<u>\$1,948,000</u>		

(See accompanying notes to financial statements)

**EXHIBIT 6C**

**Sample Voluntary Health and Welfare Service  
Statement of Cash Flows\***

**Year Ended December 31, 19X2 with Comparative Totals for 19X1**

	Current Funds		Land, Building and Equipment Fund	Endowment Fund	Total All Funds	
	Unrestricted	Restricted			19X2	19X1
Cash flows from operating activities						
Public support	\$4,129,000	\$150,000	—	—	\$4,279,000	\$4,407,000
Membership dues	17,000	—	—	—	17,000	18,000
Investment income	98,000	11,000	—	—	109,000	112,000
Other revenues	42,000	—	—	—	42,000	44,000
Cash paid to suppliers and employees	(2,831,000)	—	—	—	(2,831,000)	(2,916,000)
Cash paid for awards and grants	(1,454,000)	(155,000)	—	—	(1,609,000)	(1,657,000)
Net cash flow from operating activities	<u>1,000</u>	<u>6,000</u>	<u>—</u>	<u>—</u>	<u>7,000</u>	<u>8,000</u>
Capital cash flows						
Investment income	—	—	—	\$ 25,000	25,000	27,000
Public support	—	—	\$ 57,000	6,000	63,000	65,000
Net capital cash flow	<u>—</u>	<u>—</u>	<u>57,000</u>	<u>31,000</u>	<u>88,000</u>	<u>92,000</u>
Cash flows from investing activities						
Land, buildings and equipment						
Purchases	—	—	(37,000)	—	(37,000)	(35,000)
Proceeds from sales	—	—	—	—	—	—
Investments						
Purchases	(1,107,000)	—	(32,000)	(100,000)	(1,239,000)	(1,202,000)
Proceeds	700,000	—	—	163,000	863,000	837,000
Net cash flow from investing activities	<u>(407,000)</u>	<u>—</u>	<u>(69,000)</u>	<u>63,000</u>	<u>(413,000)</u>	<u>(400,000)</u>
Cash flows from financing activities						
Proceeds from borrowing	—	—	—	—	—	—
Repayment of debt	—	—	(4,000)	—	(4,000)	(4,000)
Net cash flow from financing activities	<u>—</u>	<u>—</u>	<u>(4,000)</u>	<u>—</u>	<u>(4,000)</u>	<u>(4,000)</u>
Increase (decrease) in cash	<u>(406,000)</u>	<u>6,000</u>	<u>(16,000)</u>	<u>94,000</u>	<u>(322,000)</u>	<u>(304,000)</u>
Transfers						
Property and equipment acquisitions from unrestricted funds	(17,000)	—	17,000	—	—	—
Realized endowment fund appreciation	100,000	—	—	(100,000)	—	—
Funds returned to donors	—	(8,000)	—	—	(8,000)	—
Net increase (decrease) in cash	<u>(323,000)</u>	<u>(2,000)</u>	<u>1,000</u>	<u>(6,000)</u>	<u>(330,000)</u>	<u>(304,000)</u>
Cash						
Beginning of year	2,530,000	5,000	2,000	10,000	2,547,000	2,851,000
End of year	<u>\$2,207,000</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 4,000</u>	<u>\$2,217,000</u>	<u>\$2,547,000</u>

\*See footnote on page 1.

**EXHIBIT 6D**

**Sample Voluntary Health and Welfare Service  
Statement of Functional Expenses**

**Year Ended December 31, 19X2 with Comparative Totals for 19X1**

	19X2									
	Program Services					Supporting Services				
	Research	Public Health Education	Professional Education and Training	Community Services	Total	Management and General	Fund Raising	Total	Total Expenses	
									19X2	19X1
Salaries	\$ 45,000	\$291,000	\$251,000	\$269,000	\$ 856,000	\$331,000	\$368,000	\$ 699,000	\$1,555,000	\$1,433,000
Employee health and retirement benefits	4,000	14,000	14,000	14,000	46,000	22,000	15,000	37,000	83,000	75,000
Payroll taxes, etc.	2,000	16,000	13,000	14,000	45,000	18,000	18,000	36,000	81,000	75,000
Total salaries and related expenses	51,000	321,000	278,000	297,000	947,000	371,000	401,000	772,000	1,719,000	1,583,000
Professional fees and contract service payments	1,000	10,000	3,000	8,000	22,000	26,000	8,000	34,000	56,000	53,000
Supplies	2,000	13,000	13,000	13,000	41,000	18,000	17,000	35,000	76,000	71,000
Telephone and telegraph	2,000	13,000	10,000	11,000	36,000	15,000	23,000	38,000	74,000	68,000
Postage and shipping	2,000	17,000	13,000	9,000	41,000	13,000	30,000	43,000	84,000	80,000
Occupancy	5,000	26,000	22,000	25,000	78,000	30,000	27,000	57,000	135,000	126,000
Rental of equipment	1,000	24,000	14,000	4,000	43,000	3,000	16,000	19,000	62,000	58,000
Local transportation	3,000	22,000	20,000	22,000	67,000	23,000	30,000	53,000	120,000	113,000
Conferences, conventions, meetings	8,000	19,000	71,000	20,000	118,000	38,000	13,000	51,000	169,000	156,000
Printing and publications	4,000	56,000	43,000	11,000	114,000	14,000	64,000	78,000	192,000	184,000
Awards and grants	1,332,000	14,000	119,000	144,000	1,609,000	—	—	—	1,609,000	1,448,000
Miscellaneous	1,000	4,000	6,000	4,000	15,000	16,000	21,000	37,000	52,000	64,000
Total expenses before depreciation	1,412,000	539,000	612,000	568,000	3,131,000	567,000	650,000	1,217,000	4,348,000	4,004,000
Depreciation of buildings and equipment	2,000	5,000	6,000	10,000	23,000	7,000	4,000	11,000	34,000	32,000
Total expenses	\$1,414,000	\$544,000	\$618,000	\$578,000	\$3,154,000	\$574,000	\$654,000	\$1,228,000	\$4,382,000	\$4,036,000

(See accompanying notes to financial statements)

## EXHIBIT 6E

### Sample Voluntary Health and Welfare Service Notes to Financial Statements

December 31, 19X2

#### Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Voluntary Health and Welfare have been prepared on the accrual basis and include the accounts of the Service and its affiliated chapters.

##### *Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of resources available to the service, the accounts of the service are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the service are reported in three self-balancing fund groups as follows:

- Current funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of operations.
- Land, building and equipment funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

##### *Expendable Restricted Resources*

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the service has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

##### *Plant Assets and Depreciation*

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Donated assets are capitalized at fair value. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

##### *Other Matters*

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the current unrestricted fund or, if restricted, as deferred amounts until the terms of the restriction have been met.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply. Policies concerning donated materials and services are described in Note 6.

**Note 2—Investments**

Investments are stated at cost. Market values and unrealized appreciation (depreciation) at December 31, 19X2 and 19X1 are summarized as follows:

	(Thousands of Dollars)			
	December 31, 19X2		December 31, 19X1	
	Quoted Market Value	Unrealized Appreciation	Quoted Market Value	Unrealized Appreciation (Depreciation)
Current unrestricted funds				
For long-term purposes	\$2,735	\$ 8	\$2,230	\$ (15)
Other	1,100	25	941	( 9)
Current restricted funds	73	2	73	1
Endowment funds	2,125	181	2,183	176
Land, building and equipment fund	184	7	153	8

Interfund transfers include \$100,000 for 19X2, which represents the portion of the realized appreciation (\$25,000 realized in the current year and \$75,000 realized in prior years) in endowment funds that, under the laws of (a state), were designated by the governing board for unrestricted operations. At December 31, 19X2, \$200,000 of realized appreciation was available in endowment funds, which the governing board may, if it deems prudent, also transfer to the unrestricted fund.

*If the organization accounts for its investment on the market value basis, the first part of the above note might be worded as follows:*

Cost and unrealized appreciation (depreciation) at December 31, 19X2 and 19X1 are summarized as follows:

	(Thousands of Dollars)			
	December 31, 19X2		December 31, 19X1	
	Cost	Unrealized Appreciation	Cost	Unrealized Appreciation (Depreciation)
Current unrestricted funds				
For long-term purposes	\$2,727	\$ 8	\$2,245	\$ (15)
Other	1,075	25	950	( 9)
Current restricted funds	71	2	72	1
Endowment funds	1,944	181	2,007	176
Land, building and equipment fund	177	7	45	8

**Note 3—Research Grants**

The Service's awards for research grants-in-aid generally cover a period of one to three years, subject to annual renewals at the option of the governing board. At December 31, 19X2, \$1,748,000 had been designated by the board for research grants, of which \$596,000 had been awarded for research to be carried out within the next year.

**Note 4—Proposed Research Center**

The XYZ Foundation has contributed \$50,000 to the Service with the stipulations that it be used for the construction of a research center and that construction of the facilities begin within four years. The Service is considering the construction of a research center, the cost of which would approximate \$2,000,000. If the governing board approves the construction of these facilities, it is contemplated that its cost would be financed by a special fund drive.

**Note 5—Land, Buildings and Equipment and Depreciation**

Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets. At December 31, 19X2 and 19X1, the costs of such assets were as follows:

	<u>19X2</u>	<u>19X1</u>
Land	\$ 76,000	\$ 76,000
Buildings	324,000	324,000
Medical research equipment	336,000	312,000
Office furniture and equipment	43,000	33,000
Automobiles and trucks	<u>33,000</u>	<u>30,000</u>
Total costs	812,000	775,000
Less accumulated depreciation	<u>296,000</u>	<u>262,000</u>
Net	<u>\$516,000</u>	<u>\$513,000</u>

**Note 6—Donated Materials and Services**

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the organization's program services and in its fund-raising campaigns.

**Note 7—Long-Term Debt**

Long-term debt at December 31, 19X2 and 19X1 consists of the following:

	<u>19X2</u>	<u>19X1</u>
8% mortgage note payable in semiannual installments of \$5,400 (including principal and interest) to December 31, 19Y0 collateralized by equipment	<u>\$32,000</u>	<u>\$36,000</u>

Long-term debt maturing in the next five years consists of:

19X3	\$ 4,000
19X4	4,000
19X5	4,000
19X6	4,000
19X7	<u>4,000</u>
Total	<u>\$20,000</u>

**Note 8—Leased Facilities**

The buildings used by the organization for its community services programs are leased under operating leases. At December 31, 19X2, fifteen such buildings were being leased for an annual cost of approximately \$12,000.

**Note 9—Pension Plan**

Effective January 1, 19X0 Sample Voluntary Health and Welfare Organization adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended December 31, 19X2 was a reduction of \$XX,XXX.

A summary of the components of income follows:

	December 31,	
	19X2	19X1
Service cost—benefits earned during the year	\$ XX,XXX	\$ XX,XXX
Interest cost on projected benefit obligation	XX,XXX	XX,XXX
Actual return on plan assets	(XX,XXX)	(XX,XXX)
Net asset gain (loss) deferred for later recognition	(XX,XXX)	(XX,XXX)
Amortization of unrecognized net asset	(XX,XXX)	(XX,XXX)
Net periodic pension income	<u><u>\$(XX,XXX)</u></u>	<u><u>\$(XX,XXX)</u></u>
Funded status of the plan:		
Actuarial present value of benefit obligation		
Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X2 and \$XX,XXX in 19X1	\$ (XX,XXX)	\$ (XX,XXX)
Projected benefit obligation for service rendered to date	(XX,XXX)	(XX,XXX)
Assets available for benefits		
Plan assets at fair value, primarily listed stocks and U.S. government securities	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Plan assets in excess of benefit obligation	XX,XXX	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions	XXX	XXX
Unrecognized net assets at January 1, 19X0 being recognized over XX years	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
Prepaid pension cost included in other assets	<u><u>\$ XX,XXX</u></u>	<u><u>\$ XX,XXX</u></u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X2 and 19X1, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the school recognized gains of \$X,XXX and \$X,XXX in 19X2 and 19X1, respectively.

**Note 10—Postretirement Health Care and Life Insurance Benefits**

Sample Voluntary Health and Welfare Organization offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees. Sample Voluntary Health and Welfare Organization shares the cost of providing these benefits with all affected retirees. Sample Health and Welfare Organization's cost of providing such benefits is recognized by expensing the insurance programs' premiums as paid. The aggregate amount so expensed totalled \$XX,XXX and \$XX,XXX for the years ended December 31, 19X1 and 19X0, respectively. Sample Voluntary Health and Welfare Organization has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.



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